

THE INDONESIAN QUARTERLY

Human Rights and Development in Indonesia

- Current Events
- Human Rights and Democracy in the ASEAN Nations: The Next 25 Years
- Human Rights Standard Setting in Asia: Problems and Prospects
- Human Rights and Aid: A Canadian Perspective
- Public Enterprise in Indonesia: Restructuring or Privatisation?
- Mobilisation of Public Savings
- Financing of Small Scale Business: The Indonesian Experience
- Development Programme, Cultural Interpretations, and Successful Implementation
- Book Reviews



The Quarterly

The Indonesian Quarterly is a journal of policy oriented studies published by the Centre for Strategic and International Studies (CSIS), Jalan Tanah Abang II/23-27, Jakarta 10160. It is a medium for research findings, evaluations and views of scholars, statesmen and thinkers on the Indonesian situation and its problems. It is also a medium for Indonesian views on regional and global problems. The opinions expressed in *The Indonesian Quarterly* are those of their authors and do not necessarily reflect the opinion of the CSIS.

The Logo



To better represent the underlying ideas that gave birth to the CSIS in 1971 the Centre uses as of 1989 the logo that figures on the front cover of this journal. The original, in bronze, designed by G. Sidhartha, it consists of a disc with an engraving that depicts the globe which serves as a background to a naked man with an open book laid on a cloth over his lap, his left hand pointing into the book, his right hand raised upwards. Altogether it symbolises the Centre's nature as an institution where people think, learn and communicate their knowledge to whoever are interested, to share it with them, mankind the world over being their concern and the globe their horizon. The nakedness symbolises the open-mindedness, the absence of prejudice, in the attitude of the scholars who work with the Centre, just as it is with scholars everywhere. The inscription reads "*Nalar Ajar Terusan Budi*," which in the Javanese language essentially means that to think and to share knowledge are only the natural consequence of an enlightened mind. It is a *surya sengkala*, that is *chandra sengkala*, a Javanese traditional way to symbolise a commemorable year in the lunar calendar, adapted to the solar calendar system. It consists in using words that express the perceived meaning of the commemorated year while marking the year at the same time, each word having a numerical value. Thus, the inscription, in reverse order, represents the year the CSIS was established: 1971.

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From the Editor

FOR the last few years the world has seen tumultuous change. The downfall of communism in Eastern Europe and the end of the Cold War called for rejoicing. On the other hand, a dark cloud of carnage and destruction has overshadowed some parts of the world. In 1992, for example, the end of the worst years of "apartheid" in South Africa was followed by bloody feuds between black factions. In Somalia, Germany, Bosnia, India and Cambodia, to name but a few, sectarian groups are killing one another. Accordingly, *Newsweek* dubbed it "the Year of Fratricide" with the motto "Hate Thy Neighbour."

Of late, human rights issues have been widely discussed in various fora. Those issues, however, are inevitably intertwined with political and economic environments in this era of globalisation and internationalisation. Generally, two different perspectives have been brought to the fore, a Western concept and that of the developing world.

Euro-American countries hold that human rights criteria should be inherent and universally applied in their foreign policy conduct. Hence foreign aid should be linked with human rights criteria.

This concept has been rejected by most of the developing world, including Indonesia. The developing world's concept of human rights is different in some important respects from that of developed Western countries. It focuses on the rights of the community, which, when necessary, are given predominance over individual rights. In fact, this concept was also expressed at the Tenth NAM Conference in Jakarta in September 1992.

It is ironic that a world marked with "fratricide" should talk about human rights abuses of other nations. It would have been more appropriate if the motto "Hate Thy Neighbour" be replaced by "Love Thy Neighbour." People should first of all improve their own human rights conditions before turning their attention to their neighbours' shortcomings. Perhaps human rights conditions could be improved if development efforts are not only aimed at economic gains but also at building up human dignity and morality.

To give the readers a bird's eye view on the current state of affairs of human rights, the *Indonesian Quarterly* highlights some perspectives on human rights. The journal also describes some development programmes in Indonesia. These programmes demonstrate the nexus between development and human rights.

Daniel Setyawan

Current Events

Hope for Democratisation in 1993

Amir Santoso

ENTERING year 1993, in the light of political events in 1992, two views about the prospect of democratisation have developed, one pessimistic and the other optimistic. Some observers who have watched the results of the General Elections and the recruitment pattern of the members of the House of Representatives and the Consultative Assembly, for instance, have pessimistic feelings about any change in the political system. The Functional Group (Golkar) still constitutes the majority so that the United Development Party (PPP) and the Democratic Party of Indonesia (PDI) cannot possibly effect any change. From the aspect of Parliamentary membership, they do not see any hope of change with regard to some former officials or their families, who are members of the House of Representatives. Observers wonder how these loyalists

could possibly pioneer change. The more so as it proved that some proposals for alterations have been turned down.

Apparently the political parties cannot be expected as yet to control the executive branch. Judging from the attitude of the PPP after the General Elections, this party prefers to play it safe by minimising confrontation. Only the PDI keeps trying to pull the other way. But its way of expressing different views needs to be balanced by a clear conception of change, in order that the public will not be puzzled by its behaviour.

In the midst of this pessimism I am inclined to agree with the view that the decline of the votes favouring Golkar in the General Elections is one of the indications of the trend towards democracy. Because for the first time people have dared to cast their votes for other parties, especially those in the regions that are traditionally Golkar bases. The shift in votes was regarded as an indicator of disappointment at some of the Government's policy, so that political ana-

This article is translated from *Suara Karya*, 20 December 1992. Dr. Amir Santoso is Head of Department of Political Science, and Executive Director of Institute for Political and Development Studies (LPPIS), University of Indonesia.

lysts called these protest votes. Since this shift on votes was among others due to the shift in support of part of the city population, it was said that the middle class of the city population was beginning to show its existence as a potential group with differing views.

In view of the membership of the House of Representatives there still seems to be more possibility of veering towards democracy. *First*, it has to be kept in mind that the very word *change* is not identical to democracy. This change may aim towards a goal which is by no means democratic, and so one must be careful in interpreting this word. In order to become more democratic, some alterations are really needed. But those changes have to be conceptually transparent. This purports to prevent the emergence of a desire to have change out of sheer boredom, while it is unclear what the desired change would be.

Second, the tradition of debating in the sessions of the Commissions in the House of Representatives is quite animated and stimulating, but is rarely known by the public. What is always known is that following a plenary session there is general agreement. Therefore it is necessary that the debates in the Commissions and other meetings be open to the public. This is to avoid general opinion that members of the House of Representatives are only capable of agreeing to Government proposals. Some of the members of the preceding House of Representatives (1987-1992) turned out to be active and pronounced.

Nevertheless there is still an assumption that House members are passive and gave the impression of being satisfied with their membership for prestige and salary reasons.

It is possible too, that some members do not see the point in being active in forwarding proposals, considering the fastidious rules and regulations, and the possibility of not being reappointed in the next term, if they are vocal. If this assumption is right, it is the task of the new House of Representatives to draft a set of rules and regulations in order to make it possible for every member to take the initiative without fear, if they should have different views.

Third, we, as outsiders, cannot take for granted that the sessions of the Consultative Assembly (MPR) Working Committee only give an impression of the high degree of conservatism in the majority group. Because the staunch stance of the majority in maintaining the *status quo* may be a short-term political strategy in maintaining security of the General Sessions of the Consultative Assembly. Thereafter, gradual improvements of the political system may be made.

If this hypothesis is right, it would be rash to assume that the Golkar and the Indonesian Armed Forces are conservative in their attitude. In my opinion the greatest potential to bring about change lies exactly in the hands of Golkar and the Armed Forces, because the PPP and the PDI in the House of Representatives are too small to initiate any meaningful change. It has been borne out in the sessions of the Working Committee of the Consultative Assembly, that the minor factions are at best only able to hold out but unable to urge major proposals.

The increasing public demands for democratisation and improvement of the political system and influence of the international world will not be just ignored by the Golkar and the Armed Forces. For Golkar

and the Armed Forces certainly do not want the political system to be "outdated". Improvements will no doubt be made in order that Indonesia's political system will continue to possess adequate capacity to accommodate the multiplying demands. Failure to enlarge the political system's capacity will create great problems in the future.

It is little known that some of the Golkar leaders and prominent figures among the Armed Forces are democrats with a clear view of what is good for Indonesia's political system. Hence many people think that almost all of them belong to a group averse to political reform.

Hopes for democratisation are also reflected by the fact that the pressures and demands of the public are beginning to be heeded by the Government. In the past it was never known whether there was any response from the Government. However, in 1992 the government directly gave its response. Real evidence of this response was the postponement of the implementation of the Traffic Law in August. This law is indeed badly needed in order to enhance traffic discipline. It is increasingly felt that this law is very urgent, because the number of casualties are augmenting as a consequence of the lack of discipline of drivers and road users. Naturally efforts to regulate the traffic cannot be made merely through the enforcement of the law. Other improvements are still required, especially improvement of the welfare of the traffic police and expansion of traffic facilities.

The development of the press may also become an indicator of democracy. As regards the development of the press during 1992 some quarters hold that this develop-

ment has not been as yet very satisfactory. The press is still regarded as Government Public Relations, is not investigative enough, and to a large extent speaks the Government's language. This is due to the self-imposed relatively tight censorship in order to avoid revocation of the Licence of Press Publication Certificate (SIUPP) and naturally also due to the inability of the people of the press to introduce innovations and creativeness.

However, in 1993 I am not so pessimistic. Has there not been a certain quarter that dared to protest against the decree of the Minister of Information and requested the Supreme Court to exercise the right of Judicial Review? The quality of news release has also improved and the atmosphere of freedom is beginning to be felt. From my perspective, freedom of the press in Indonesia is much better than that in Singapore and in Malaysia.

Domestic security apparently will also improve. This, however, depends largely on the Government's anticipation of various public demands. The end of 1992, for instance, was marked by many labour strikes. Apart from whether the labour activities were being exploited or not, it is clear that those strikes did occur and the restlessness of the workers was evident. This proves that the working condition of workers is still inadequate. So it is not relevant to restrain their activities, only because of rumours of being exploited.

It is time that the policy that apparently always favours employers be reviewed for the sake of the workers' welfare. Certainly various other policies unfavourable to the lower middle class, must be improved. For in 1992 not only the labourers were restive, but

also the urban poor, who are always being evicted, farmers whose lands were seized, teachers, whose salaries are always being cut, retailers, whose stalls are closed, to be torn down to build shopping centres, civil servants, whose salaries were so low, so that they were forced to commit graft.

Another point which is not less important is the proper handling of the antagonisms between ethnic groups, religions, races, and groupings (SARA). These questions

should not damage the national integration built with such painstaking efforts. In the future, support for a political system is not only needed from the urban upper middle class. The lower middle class may become a potential threat if it increasingly feel that it is not being fairly treated, not only as regards its welfare, but also with regard to the interests of ethnic groups and religion. Therefore policy improvements are badly needed in order that all sectors of society feel that they are being treated equitably.

The 1993/1994 Draft State Budget: Debt Burden, Taxes and Removal of Fuel Oil Subsidy

Al Baroto

INTRODUCING the 1993/1994 Draft State Budget (RAPBN), which the government submitted to the House of Representatives on January 7, 1993, President Soeharto reported various achievements, among others, the inflation rate was successfully kept down to 4.94 per cent, the balance of payments was stable, deficit was decreased and stable prices have helped the producers and farmers become more productive.

In the 1993/1994 RAPBN, state revenues are estimated to reach Rp 62.3 trillion, an increase of 11.1 per cent as compared to the 1992/1993 State Budget (APBN). Of this

amount, more than Rp 52.7 trillion, or 84.7 per cent of the total revenues, originates from domestic income sources, or Rp 15 trillion from oil and gas earnings, and more than Rp 37 trillion from non-oil/gas revenues. As for the remainder, Rp 9.6 trillion, or 15.3 per cent, comes from the development revenues, namely foreign aid.¹

¹See *Keterangan Pemerintah tentang Rancangan Anggaran Pendapatan dan Belanja Negara (RAPBN) Tahun 1993/1994 pada Sidang DPR* (Government Statement on the 1993/1994 Draft State Budget at the Session of the House of Representatives), presented by the President of the Republic of Indonesia, January 7, 1993, p. 10-24.

The 1993/1994 RAPBN reflects the determination of the government to gradually reduce the development revenues or foreign aid, in terms of the total amount as well as of its proportion to the total revenues. This indicates that the government consistently desires to increase its self-reliance, to finance development on its own.

In the 1991/1992 budget, for example, the aid portion accounted for 20.5 per cent of the total income of Rp 50.555 trillion; in 1992/1993, it went down 17.1 per cent of the total revenue of Rp 56.108 trillion, subsequently declining to 15.3 per cent of a total income of Rp 63.3 trillion. If every year foreign aid should decrease by only 2 per cent, it would take approximately eight years to free the income of the APBN from foreign aid. Even after this, this does not mean that we are free from our debt burden. Indonesia still have to pay principal and interest charges on its debts.

The Burden of Interest Rate and Debt Payments

Since the First Five Year Development Plan (Repelita I) to the Fifth Five Year Development Plan (Repelita V), the burden of the interest and the foreign debt payments have increased by 37.1 per cent on the average. The increase of this burden, aside from affecting the amount of the principal payments and the rates of interest on loans, also influences the exchange rate, both between foreign currencies (e.g. between the yen and the dollar), and between foreign currencies and the Rupiah. Today, the amount of accumulated foreign borrowings has made Indonesia's debt service burden of which the maturity dates are due, reach the

total of about US\$ 10.5 billion, including private sector debts. Actually government debts only amount to US\$ 8 billion, so that in the 1993/1994 RAPBN, the government has fixed the amount at Rp 16.7 trillion for the total debt payment; this total amount has increased by 15.1 per cent, compared to that of the previous year.

One of the indicators showing the riskiness of foreign loans is the debt service ratio (DSR). On a national scale our national DSR currently is approaching 30 per cent. This figure is the result of a calculation of the debt service burden of US\$ 10.5 billion (government plus private sector) divided by the expected export value of US\$ 37 billion, and multiplied by 100 per cent. This is causing considerable concern to the government. The DSR is considered safe when it is in a 20-25 per cent position, familiarly known as a green-light position. The "amber light" position is that of 25-30 per cent, whereas more than 30 per cent is taken to be a "red light" position.

According to the World Bank, in 1992 Indonesia ranked second among debtor countries. In 1990/1991 Indonesia's foreign loans reportedly reached US\$ 67.23 billion, and increased by US\$ 73.63 billion in the year 1991/1992. In 1993/1994, it is estimated that the total debts reached US\$ 87 billion (US\$ 55 billion of state sector, and US\$ 32 billion of private sector debts). With this position it has replaced India, which reached 33 per cent with its DSR in 1990/1991. The first rank is occupied by Mexico whose foreign debts have reached the sum of US\$ 101.74 billion with a DSR of 30.9 per cent or US\$ 14.04 billion.²

²Prayudi, "Makna dari Segi Politik" (The Political Significance), *Merdeka*, January 9, 1993; see also *Info Finansial* IV, no. 13 (20 January 1993): 7.

Taxes and Removal of Fuel Subsidies

Considering the heavy debt burden, the government has to increasingly mobilise all its funds and forces in order to be able to pay its debts. In order to acquire revenues needed for routine or development expenditures, the government has taken various steps, among others, increasing exports, especially non-oil/gas, and intensifying tax revenues. These measures, however, have evidently not as yet been sufficient; therefore the government has been compelled to remove fuel subsidies, increasing the price of fuel. But in this another objective is implied, namely placing Indonesia's economy on a realistic basis. The Removal of the subsidies will be able to strengthen the economic foundation and provide a structure that is more realistic and sound, so as to guarantee sustainable development without relying too much on foreign capital.

In the 1993/1994 draft state budget, the government has sought an alternative to foreign aid from its own national assets. This is evident from the government's estimate of the domestic revenues outside oil and gas, which are estimated to have increased by more than 15 per cent from the previous fiscal year. The fastest increasing revenues are expected to be obtained from income taxes, which are estimated to increase by 15.9 per cent. Five types of taxes are targeted to increase. The first is income tax (PPh), which had been fixed at Rp 14.8 trillion (to rise by 35.9 per cent). The second is value added tax (PPn), which will rise by Rp 650 billion (or 5.8 per cent). The third, taxes on building and land (PBB) are expected to rise by 33 per cent. The fourth is the non-tax revenues, which will increase by approximately

23 per cent; and the last are Customs Office, exit fee, export and import duty, and other taxes. This rather high increase will be achieved without adding new taxes, but by expanding tax payers and improving the administration of taxation itself.³

In explaining the reasons for the removal of oil subsidies, the Minister of Energy and Mining, Ginandjar Kartasasmita, stated that in fiscal 1991/1992, when the oil prices were raised, the oil import was estimated at 3.9 million kilolitres with import costs of approximately US\$ 612 million. In fiscal year 1993/1994, crude oil prices are estimated at US\$ 18/barrel so that the price of fuel oil becomes Rp 317.44/litre. Oil imports are estimated to increase by 7.4 million kilolitres (2/3 of solar oil) with import costs of more than US\$ 1 billion. Without an adjustment of the oil prices, the government would have to cover subsidies of Rp 1.3 trillion. Not included in these are the oil subsidies, which are from previous years. If the entire amount is totalled, it amounts to Rp 3 trillion.⁴

Since 1976, we have noted that there have been ten consecutive rises in the price of the fuel oil (Table 1). But for the last five years, the consumption of oil has grown by 8 per cent per annum on average. In 1990/1991, there was a rise of more than 14 per cent. Although in July 1991, oil prices increased by 16.11 per cent on the average, oil consumption went up by a lower rate, that is 6 per cent. But, one year later (1992/1993 oil consumption was estimated to increase even higher again by approximately 11 per cent.⁵

³Keterangan Pemerintah, 20.

⁴The Minister of Mining and Energy, Ginandjar Kartasasmita, in *Business News*, January 11, 1993.

⁵Ibid.

Table 1

THE RISE OF OIL PRICES
(Rp/Litre)

	May, 3 1979	May, 1 1980	Jan., 4 1982	Jan., 7 1983	Jan., 12 1984	Apr., 1 1985	July, 10 1986	May, 25 1990	July, 11 1991	Jan., 8 1993
AVIGAS	100	150	240	300	300	330	250	330	400	420
AVTUR	100	150	240	300	300	330	250	330	400	420
SUPER	140	220	360	400	400	440	440	-	-	-
PREMIUM	100	150	240	320	350	385	385	450	550	700
KEROSENE	25	37.5	60	100	150	165	165	190	220	280
SOLAR	35	52.5	85	145	220	242	200	245	300	380
DIESEL OIL	30	45	75	125	200	220	200	235	285	360
FUEL OIL	30	45	75	125	200	220	200	220	220	240

Source: Documentation of *Kompas* and The Government's Statement (7/1), quoted from *Kompas*, 8 January 1993.

We also note that the rise of oil prices has increased sixteen times consecutively in a period of sixteen years, and each was followed by a rise in the rates of electricity, transportation, commodity and services prices. Nevertheless, the above figures reflect that we have not yet changed our habits and way of life, especially as consumers of fuel oil.⁶

Accordingly, the government has to remove oil subsidies, not because of the balance of payments, but to remind the public to use energy efficiently, since 64 per cent of our energy requirement comes from oil. With the present rate of increase in oil consumption, by the end of this century Indonesia will become an oil importer. The rise of oil prices will force the people to consider conservation and economisation more seri-

ously. The principle of calculating full economic costs has to be upheld. More than Rp 3 trillion will be spent by the government next year on repairs and expansion of highways throughout Indonesia. It will undoubtedly be difficult to accept damage to roads by big vehicles that use subsidised solar oil (the consumption of solar oil can be seen in Table 2).

With regard to efforts to economise on oil energy, the President has suggested an alternative to oil energy, especially kerosene, by using coal briquettes. The increase of kerosene price by 27 per cent, aside from aiming to prevent the price of kerosene from swerving too far from the price of solar oil, is to prevent the adulteration of solar oil. It also encourages the oil consuming public to gradually replace kerosene by coal, of which the deposits are still abundant and prices are still low. Actually the fixing of the price of kerosene is still below production costs, and the shortage will be covered by the rise in premium oil price (a rise of 27 per cent).

⁶Editorial, "RAPBN 1993/94 Mengubah Pemahaman dan Sikap Kita tentang Uang" (The 1993/94 Draft State Budget, Changing Our Insight and Attitude Regarding Money), *Kompas*, January 14, 1993.

Impact of the Removal of Subsidies

The rise in oil prices, on the one hand, has alleviated the government's burden because of the elimination of subsidies, but on the other hand, it can be regarded as adding to the burden of the industrial sector, including industries that produce non-oil/gas commodities for export. This is because the increase of export is badly needed to support efforts to step up the state revenues. Therefore the government encourages that in applying efficient use of energy, the industrial sector must be able to minimise the use of oil energy, in order to yield products with the same quantity and quality or even better, so that the removal of the subsidies, which resulted in the rise of oil prices, is not immediately followed by a general rise in other prices. If the response of the industrial sector is positive and creative, the rise in oil prices should stimulate the development of a new

technology and a better management of oil consumption. However, if the rise in oil prices is directly transferred to the rise in product prices, which may also reduce the competitiveness of our exports in the international market, this will only reflect our low quality as a nation in dealing with new challenges.

Viewed from the angle of diversification of non-oil energy consumption, including geothermal, and natural gas energy, the rise in oil prices is expected to be able to help realise these efforts. But it should be sustained by various policies such as dispensation of taxes/import duties for the utilisation of various technologies using non-oil/gas energy. Reversely, if the public decide to buy non-petrol machines/tools/vehicles, or efficient fuel, it should not give rise to new obstacles as a consequence of having to import equipments or machines worth trillions of rupiah.

Table 2

CONSUMPTION OF DOMESTIC OIL (in Kilolitres)

Product	1990-1991	1992-1993	Changes	Main Consumers
AVIGAS	748,351	815,570	- 8.3%	Air Transportation
AVTUR	9,305	9,138	- 1.7%	Air Transportation
PREMIUM	6,477,240	7,639,211	- 17.0%	Private Cars
SOLAR	11,916,854	15,491,839	+ 29.9%	Industry & PLN*
DIESEL OIL	1,713,558	1,864,072	+ 8.7%	Industry
FUEL OIL	4,523,911	5,051,974	+ 11.6%	PLN*
KEROSENE	7,915,421	8,467,649	+ 6.9%	House Hold

*PLN or State Electricity Companies; 67% of PLN' electricity are utilised by the Industrial sector, Hotels and the Public.

Source: Special Report, *Tempo* (16 January 1993): 81.

Rise of Oil, Salaries and General Prices

On the basis of the last two decades of experience, we observe that the rise in the prices of commodities and services in the Indonesian economy is due to three main factors:⁷ (1) devaluation;⁸ (2) increased salaries of government employees;⁹ and (3) increased oil prices, followed by a rise in electricity rates and transportation fares. And yet of the three aforementioned factors, it is only devaluation that does not appear in the government's policy.

Devaluation is unnecessary, since international trade is still favourable. Oil prices are relatively stable, although some observers hold that fixing the price at US\$ 18 per barrel is not too realistic as yet, because the slow-down of industry in Japan and West-European countries is estimated to stimulate a decline in the oil price to US\$ 16 per barrel. Nevertheless, the removal of oil subsidies, which resulted in the rise of domestic oil prices, electricity rates, and transportation fares, will very probably encourage inflation rate. Subsequently, it will lead to the soaring of production costs, and mounting prices in

sales to final consumers, with rising distribution costs in between.

The policy of raising the salaries of government employees is praiseworthy, but behind this policy we find the inflation rate increasing due to increase of prices in the trade sector, which often rashly follows suit or even takes the lead in raising the prices of goods and services upon learning about the rise in the salaries of government's employees. This is a familiar pattern in our economic history. At the time of the devaluation of November 15, 1978, the Commander for the Restoration of Peace, Security and Order (*Pangkopkamtib*) had to conduct an inspection tour of the traditional markets, in order to keep the prices down. But this operation turned out only to be successful for a very short period. Subsequently, the inflation rate that stood at 6.7 per cent for 1978, soared to 21.8 per cent in 1979. Aside from this, the pressure of the inflation rate may also take effect because of an additional circulation of money as a consequence of the raise in salaries.

Concluding Remarks

A successful method in curbing inflation, has been proved by our economic experts through the monetary authority. During 1992, it succeeded in keeping the inflation down to only 4.95 per cent. The experience of that year proved that the instrument of tight-money policy is really very effective in controlling inflation. But the problem is, will this policy work in 1993?

The tight-money policy applied so far has been successful in curbing inflation, but it has had a bad impact on the investment climate. And the decline in investments may

⁷For further explanation, see Anton Hermanto Gunawan, *Anggaran Pemerintah dan Inflasi di Indonesia* [Government Budget and Inflation in Indonesia] (Jakarta: Gramedia, 1991), especially part III.

⁸Rupiah was devalued against US dollar: by 47% on November 15, 1978 (from Rp 415 to Rp 610 per US\$); by 18% on March 30, 1983 (from Rp 703 to Rp 907 per US\$); by 31% on September 12, 1986 (from Rp 1,134 to Rp 1,644 per US\$). Currently 1 US\$ = Rp 2,061. Between the devaluation policies, the exchange rate has been made more flexible (floating rates).

⁹The salary of the state employees had for years been left behind by the inflation. It was raised by 15% on June 5, 1991; and by 12-18% on January 7, 1993.

lead to a slowdown in trade, which in turn may have an impact on difficulties among the business sector to make profits. A decline in profits will in turn prevent the government to increase revenues from taxes, especially income taxes. In the last three to four months, it seems that the tight-money policy is being relaxed a bit. But this relaxation is still inadequate, owing to the decline in the savings interest rate. Meanwhile the credit interest rate is still too high, so that it discourages the investment.

There may be another more effective way in the efforts to control prices, namely by lobbying the existing association of private enterprises. The government ought to engage

in lobbies with these associations, and perform calculations and make studies of price rises that are recommended.

Like the previous state budgets, this draft state budget reflects the determination of the government to maintain the stability of macro-economics consistently, as the main condition for the success of our economic growth. Inflation is one of the main variables, which influences economic stability. Therefore, in order to curb inflation in the short-term, the government will probably need to continue to adopt the tight-money policy, as a policy on contraction of the budget.

Table 3

THE RISE OF OIL PRICES AND INFLATION RATES, 1979-1993
(in Per Cent)

Periods	Premium	Kerosene	Solar	Diesel	Fuel Oil	Inflation Rates**
1979*	-	-	-	-	-	21.8
1980	+ 50	+ 50	+ 50	+ 50	+ 50	16
1981	-	-	-	-	-	7.1
1982	+ 60	+ 60	+ 62	+ 66	+ 66	9.7
1983*	+ 33	+ 66	+ 70.5	+ 66	+ 66	11.5
1984	+ 9.3	+ 50	+ 52	+ 60	+ 60	8.8
1985	+ 10	+ 10	+ 10	+ 10	+ 10	4.3
1986*	-	-	- 21	- 9	- 9	8.8
1987	-	-	-	-	-	8.9
1988	-	-	-	-	-	5.5
1989	-	-	-	-	-	6.0
1990	+ 16.8	+ 15	+ 21.5	+ 17.5	+ 10	9.5
1991***	+ 22	+ 15.7	+ 22.4	+ 21.2	-	9.5
1992	-	-	-	-	-	4.95
1993***	+ 27.2	+ 27.2	+ 26.6	+ 26.3	+ 9	???

Notes: *Rupiah was devalued against US dollar.

**Source: Anwar Nasution, "Recent Economic Reform in Indonesia," *Indonesian Quarterly* XIX/1 (1991): 14; and *Kompas*, 28 January 1993.

***Increased salaries of government employees.

The government's policies of increasing tax revenues and removal of fuel subsidies are in line with that of the contraction of the budget. By contrast, the increased salaries of government employees produce an expansion of the budget. So there are two opposing policies in one budget. Meanwhile, from the last two decades of experience, we observe that rises in the salaries and oil prices are variables, which could influence the rate of inflation (Table 3). Therefore

economic experts should anticipate a bad outcome from those variables, i.e. by calculating on multiplier effects of each variable. Which variables have more impact on the government's endeavour to make its programme successful? Which variables will disturb the government's efforts to maintain the stability of macro-economics, in order to gain the target of economic growth consistently? Thus, the state budget serves to function as a catalyst for economic growth.

Human Rights and Democracy in the ASEAN Nations: The Next 25 Years

Jusuf Wanandi

Introduction

A discussion of the issues of human rights, environment and democracy in the ASEAN countries is none other than a discussion of the future of these countries and their relations to the international world. These issues should be placed at the top of ASEAN's agenda because relations among nations are undergoing a fundamental change. This is not only caused by the dissolution of the Soviet Union or as a result of the ending of the Cold War which began after World War II, but because international relations are in a period of great transformation. President Bush is correct when stating that the world is now in the process of formulating a new world order. However, he appears to have underestimated the depth of the changes and the length of time that these changes will require.

International relations, which have been based on relations among sovereign states as

laid down by the Treaty of Westphalia in 1648, are now undergoing a fundamental change because relations among groups of people and even among individuals have also become an essential part of international relations. This does not mean that relations among states are no longer important and that the sovereignty of states no longer provides the basis for international relations. However, these changes mean that relations among states alone are no longer sufficient and that the sovereignty of states is no longer absolute.

The sovereign state is now being challenged from many directions. It is challenged from "above" because of pressures from regional and international organisations, including ASEAN and the UN; it is also being pressured from "below" by the various groups in society, such as the minorities or other groups based on ethnicity, religion, or other interests, for greater "self determination". It is also challenged by the need of individuals, as the state must give attention to human rights and abide by the Declaration

of Universal Human Rights and its Covenants in the socio-political, socio-economic, and cultural fields. The state is also being challenged from the "sides" as a result of the globalisation of the economy, the interdependence among nations and groups within them, as well as because of the advancement of information technologies, telecommunication and transportation.

The challenge to the new international relations is to be able to accommodate these new actors and to jointly formulate their roles together with that of the state. This will need time as the changes are still on-going. However, it is already a fact today that the sovereignty of the state is no longer absolute and that it is being constrained by the interests of groups and individuals within that state as well as by supranational organisations or by other states and economic institutions.

The development of international relations remains uncertain so long as the new rules of the game have not been established. Among the many new issues in international relations, two stand out, namely human rights and the environment. These issues need to be addressed within the new framework of international relations. This suggests that these issues must be approached with great cautions and modesty since there is as yet no international consensus and because they are complex and continue to evolve.

This paper will deal with the issues of human rights, democracy and developments in the ASEAN countries, particularly by taking into account ASEAN's future developments. The problems of the environment is closely related to human rights and sustainable development because efforts to meet the

basic human needs of the society and the individuals, including an improvement of their natural environment, should also be seen as efforts to enhance human rights. However, this paper will not deal with the issues of the environment since ASEAN's policies in this field are already quite advanced. This can be seen from the results of the ASEAN Fourth Summit in Singapore in 1992, the decisions of the ASEAN Ministers of Environment in 1984, 1985, 1990 and 1992, and ASEAN's position in the Earth Summit in Rio in 1992.

It is important for the ASEAN nations to discuss human rights and democracy not only in their attempt to be involved in the formulation of a new world order in which human rights issues will be dominant, but also to improve the debate and efforts to understand, to educate the public, and to implement human rights in accordance with the state of their political development. If the ASEAN countries and other developing countries do not involve themselves in the formulation of the new world order, this new order will only reflect the view of Western industrialised countries and their individualistic cultural values, reflecting also the view of countries whose national resilience and development are already advanced, and whose political institutions and development are already established. The new world order so conceived will then be forced upon globally, and the developing world -- including ASEAN -- will be merely at the receiving end. It is therefore important that the ASEAN countries play an important role in the preparations for the Second World Conference on Human Rights to be held in Vienna in 1993. The Non-Aligned Summit in Jakarta in September 1992 has also stressed on the importance of this effort.

Human Rights

The following discussion highlights issues of human rights that are important for the current discussion and the views of ASEAN. It is not meant to be a comprehensive discussion of human rights as such.

At the outset it should be noted that the issue of human rights originates in the development of Western societies. The wars, the autocratic system, the exploitation of the people as a result of the industrial revolution, and the excesses of extreme ideologies which reached their apex during the Second World War have caused so many casualties there. This had motivated the leaders to formulate guidelines to prevent them from happening in the future, among other things in recognising and implementing human rights through the Universal Declaration of Human Rights (1948), which was the basis for the International Covenant on Economic, Social and Cultural Rights (ICESCR), the International Covenant on Civil and Political Rights (ICCPR), and the Optional Protocol (1976) as its legal instruments, that together are known as The International Bill of Human Rights.

In the middle of this year the ASEAN-ISIS has submitted a note on human rights to the ASEAN Ministers Meeting in Manila in July 1992. The following discussion will be an elaboration of that note. In discussing human rights ASEAN needs not be defensive because the ASEAN countries have undertaken quite a lot to implement human rights. This is especially true if one views the progress that has been achieved in these countries in eradicating poverty, in enhancing public health, literacy, employment, the environment, and development and welfare in general. In addition, the ASEAN countries

are also seriously developing their political system and to improve their legal system to provide greater legal certainty to its people, and to protect them from the abuses by government officials. All these are important implementations of human rights. There are of course imperfections and occasional violations, as happen also in Western societies, but improvements should continuously be undertaken.

In view of the fact that human rights and the environment have become a major issue in international relations, and that they could become major sources of international conflict in the future, ASEAN-ISIS proposed a number of guiding principles for the formulation of policy approaches on those issue and policy responses to the challenges they create. In respect to the issue of human rights, the following principles, which will be elaborated below, have been advanced.

1. The Principle of Interdependence

“The promotion of the environment, the promotion of sustainable development and the enhancement of human rights are all interlinked and mutually reinforcing. Together they help preserve and advance the natural, political, economic and social environment of mankind. ASEAN is fully committed to a comprehensive and balanced pursuit of all three objectives and calls upon the rest of the international community to pursue them in like manner.”

As mentioned earlier, there is a close interrelationship between the environment, basic human needs and human rights. The environment, here, is taken in its broadest sense of the word, encompassing the natural environment as well as the spiritual environ-

ment and the social environment (family, community). In developing countries poverty is the main threat to the livelihood of the people and it also endangers the natural environment. There are, of course, other causes for the degradation of the environment such as policy errors, but poverty is the main source. Therefore, the environment is close intertwined with the problems of sustainable development, the fulfillment of basic human needs, which is necessary for the implementation of human rights, such as the right to live, the right to eat, the right to physical health and health care, the right to have a reasonable livelihood. These rights guarantee that other rights, including social and political rights, could be implemented.

The implementation of human rights could help improve the environment because those rights guarantee that the environment can be preserved and not be overly exploited. Because of this close relationship the issue of human rights is often discussed together with the issue of the environment.

2. *The Principle of Comprehensiveness*

“ASEAN believes that human rights should be promoted and advanced in all their dimensions -- economic, social, cultural, civil and political -- as recognised by the United Nations Charter, the Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights. The pursuit of economic, social and cultural rights are just as important as the pursuit of civil and political rights.”

This principle is also known as the principle of indivisibility, meaning that civil and

political rights cannot be separated from social, economic and cultural rights, and they have to be pursued together.

On the one end of the spectrum, Western countries do not give sufficient attention to social and economic rights largely because their economies are already established. Therefore, they give greater emphasis to civil and political rights. On the other hand, developing countries give greater emphasis to social and economic rights because of the low level of social and economic welfare which still obtain in these countries. Civil and political rights are considered relevant only when social and economic rights of the people are sufficiently attained. It is possible, however, that the attainment of social and economic rights are used as an excuse for postponing the implementation of civil and political rights. That is why, both rights should be implemented together but in stages in accordance with the stages of development. It is important to recognise that the one rights is not more important than the other rights. They are both equally important and therefore, both must be implemented.

It is possible that economic development in a particular country should be given priority and in doing so the country cannot implement a Western style democracy. However, as the country further develops, it will have to develop politically as well as the demands for political participation from within its own society increases. In this process, what is important is whether the government concerned can be regarded by the people as a good government or a bad government.¹

¹See Kishor Mahbubani, “The West and the Rest,” *The National Interest*, no. 28, Summer 1992.

3. *The Principle of Situational Uniqueness*

"In pursuing human rights in their comprehensive entirety, the ASEAN countries -- as indeed all countries of the world -- will be guided by the consideration of the unique blend of factors that condition and constitute each country's total environment, namely its history, demography, culture, economic condition, social situation and political evolution. Being in almost all cases young nation-states, nation-building -- that is, the forging of viable, cohesive, integrated and prosperous societies within each state -- will be a foremost concern of the ASEAN countries. The ASEAN members will strive to promote human rights without sacrificing domestic stability and harmony, which themselves impinge directly and crucially on human rights."

This principle relates to the principle of universalism of human rights, which is often placed in juxtaposition to the principle of ethno-centricity. It is clear that the principles of human rights, as contained in The International Bill of Rights, are universal. This means that the principle applies everywhere without exceptions.

Most developing countries are of the opinion that human rights is universal, as stated in the 1948 Declaration of Human Rights, but that its implementation needs to be adjusted to the stages of economic development, the nation's history, cultural and other values as well as its social and political system. It is obvious, for instance, that there cannot be a single type of democracy which applies globally, be it the US system with its separation of powers or the Westminster type with a predominant power of the parliament. There are rights that are *absolute*, such as the *right to live* and the *right to*

refuse torture, so that they have to be accepted and implemented anywhere without exception, i.e. *they are universal*. However, there are civil and political rights that are relative, such as with regard to the system of democracy to be adopted.

The other issue is the conflict between individual rights and communal rights. There needs to be a balance between these two rights. In East Asia, communal rights are seen as important as the rights of the individual, which are considered to have a responsibility to the society (commune). For instance, The International Bill of Rights, stipulates that individual human rights is limited by the "recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society." (Article 29 of the Declaration). There is also the provision that the implementation of human rights could be postponed under specific conditions in case of an emergency which threaten the state (Article 4 of the Covenant on Civil and Political Rights). A limitation on human rights could also be introduced to maintain "national security, public order, public health or morals or the rights and freedom of others" (Article 12, 19, 21, 22 of the Covenant on Civil and Political Rights).

It can be concluded from the above that the Bill of Human Rights recognises the rights of the society (communal rights) and of the state, and therefore, individual rights could be limited for the sake of the public interest. This limitation and adjustment in the implementation of human rights in developing countries are considered important and are undertaken to safeguard the results of development which have been achieved in the effort towards state and nation building.

These efforts have been traumatic in many instances as the sacrifices and casualties have often been enormous. Therefore, the demands by the developed countries on the developing countries on the human rights front are often seen as unrealistic. Outside pressures will not be effective if the state and nation is at stake.

4. The Principle of Cooperation, Not Conflict

“ASEAN members welcome cooperation, incentives and assistance for the promotion of human rights in their respective countries from other countries and the international community and multilateral institutions. Such cooperation, incentives and assistance are best formulated through mutual consultation and dialogue. Cooperation, not confrontation, should be the guiding principle.”

It is clear from the UN Charter that the subject of human rights is contained in the section on cooperation. That is why, the best way to achieve it is through cooperation, since in the final analysis no country is perfect in implementing human rights. Self-righteous means and “preachings” by the Western countries (many of which were colonialists during the period of imperialism) towards the developing countries will not be effective and are often counter productive. Since the situation in each country is different the approaches towards cooperation would also differ. The best approach is when the one party could give advice as a friend to another country. Such cooperation should not be confined to governments but should also be developed among NGOs. Ultimately human rights will be implemented in a coun-

try not because of external pressures but as the society itself matures and as a result of demands by its own population. External advice and reasonable pressures may contribute to improving the human rights situation in a particular country but the key to this rests with the social forces internal to that country.

International efforts which involve all countries in pursuing human rights are important. As mentioned earlier, no country has a perfect record on this score and it is in the interest of all countries to implement human rights for their own interest. Therefore, this effort should not be seen as a crusade of the Western advanced countries, especially of those that have a colonial record.² The efforts by ASEAN and the Non-Aligned Movement, which represents 108 nations, in this area will be important for the development of greater understanding and improved implementation of human rights globally.

5. The Principle of Uniform Criteria for Conditionalisation

“The principles and guidelines determining human rights transgressions and gross violations should be established by an impartial, international body which is reflective of global and comprehensive values shared by all rather than by any particular group of states which sets its own priorities for pursuing particular dimensions of human rights. The ideal body for this is the United Nations Commission on Human Rights which was constituted for this very

²See Goenawan Mohamad, “On the Issue of Human Rights”, paper presented at the Second Indonesia-Canada Conference, Toronto, 27-29 September 1992.

purpose.”

International rules and regulations, either in the form of a Treaty or unwritten customary law, governing human rights are far from sufficient, including on the important issue of gross violations and transgressions of human rights. There is a need to further develop criteria for what constitute gross violations and transgressions. This should logically be undertaken by the United Nations Commission on Human Rights. Without any such criteria a country or group of countries (or its NGOs) can do so unilaterally. This could be far from objective and impartial and can lead to allegations that become a crusade. This will be unacceptable particularly if it comes from the Western countries.

6. *The Principle of Sanctions as a Last Resort*

“International pressure and sanctions are supported and advocated by ASEAN as measures of last resort and in cases of gross violations ascertained in accordance with the guidelines and criteria set by the United Nations Commission on Human Rights. Dialogue, persuasion and the weight of international moral censure should be the preferred instruments of international pressure, with economic sanctions applied only after careful consideration in view of the fact that such sanctions ultimately hurt the people most.”

As a principle which is contained in the 1948 Universal Declaration of Human Rights it is clear that the first attempt by an outside government in case of a violation of human rights is through diplomatic demarches. NGOs, the mass media and opinion

leaders could also influence the international public opinion and in that way exert pressures. However, to apply sanctions, such as economic sanctions, or to intervene as in the case of Iraq, the violation has to be demonstrably gross and an international body (such as the United Nations Commission on Human Rights) and finally the UN Security Council should determine the extent of the violation and agree on the sanctions applied, as in the case of Iraq, Libya, and Serbia.

In case of violations which are far from gross violations the approach should be through advice, dialogue, persuasion and the involvement of international organisations, such as the International Commission of the Red Cross. This approach promises to better contribute to the human rights situation in many countries.

In the ASEAN countries efforts should be undertaken by both the governments and NGOs to prevent violations of human rights through education and training on Humanitarian Laws (Geneva Conventions) for members of the Armed Forces, by providing legal assistance, a Criminal Procedural Law which is pro human rights, signing of the two Covenants on human rights (ICCPR and ICESCR) and other instruments such as the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, and other third generation treaties, including the International Convention on the Rights of the Child.

ASEAN refused to accept unilateral sanctions, such as the policy of the European Community to link economic assistance with the implementation of human rights.³ Since the criteria to be applied are unclear, the peo-

³See the Communique of the ASEAN Ministers Meeting in Manila, July 1992.

ple which are in need of assistance will be the one that is negatively affected by the linking of economic assistance to human rights. In addition, the assistance provided to the poor is in itself a human right which is the basis for the assistance itself. As the assistance originates from the donor country, finally it is up to the donor country itself to provide the assistance or not, but the linking of assistance to human rights is contrary to human rights as contained in the Declaration of the Right of Développement, which stipulated that: "The right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to and enjoy economic, social, cultural and political development, in which all human rights and fundamental freedoms can be fully realised." (Article 1).

Similarly, paragraph 18 of the Jakarta Declaration of the Non-Aligned Movement states the following: "We affirm that basic human rights and fundamental freedoms are of universal validity. We welcome the growing trend towards democracy and commit ourselves to cooperate in the protection of human rights. *We believe that economic and social progress facilitate the achievement of those objectives. No country, however, should use its power to dictate its concept of democracy and human rights or to impose conditionalities in others*".

7. The Principle of Non-Discrimination

"Admonitions, pressures and sanctions, where deemed necessary, should be applied non-discriminately and even-handedly. Penalising some and not penalising others, or leaning heavily on some and gently on

others depending upon self-serving interests and policy preferences, are untenable and unworthy of proclaimed ideals of commitment to the environment and human rights."

A discrimination in applying pressures towards violations of human rights will destroy confidence of the seriousness of the pursuit of human rights itself. Therefore, the policy of many countries to protect the Kurds in Iraq while allowing Turkey to bomb the Kurds there is seen as unjust and self-serving. Similarly, Myanmar is being isolated while Algiers could get away with what it has done although the latter has violated human rights as severely as the former. This is why pressures towards Myanmar are not credible.

It is true that in a country's foreign policy a number of considerations provide the basis for its relations with other countries. This include economic, political, security, cultural interests as well as historical and humanitarian considerations. Humanitarian consideration is just one of many and therefore, it can be understood why Algiers and Turkey have been treated differently than Myanmar and Iraq. However, this means that the implementation of human rights will not be done uniformly and consistently. This reduces the credibility towards the pursuit of human rights, but is understandable.

Therefore, there is a need to have some common rules which are clear and as such can be applied consistently and in a non-discriminative fashion, although they can never be absolute. Short of this, countries and governments, particularly in the West, should be more humble in their pursuit of human rights, which is not absolute.

8. *The Principle of Addressing the International and Domestic Dimension*

"The protection of the environment, the sustainment of development and the enhancement of human rights in individual countries cannot be adequately and effectively addressed without addressing factors in the international environment and the internal conditions in the respective countries themselves. External and domestic dynamics are becoming increasingly integrated and interdependent. The international environment can help advance or aggravate environmental, developmental and human rights conditions in these countries. International incentives for development especially in areas of human priority concerns; more resolute action to improve access to knowledge, skill, technology and the fruits of research for more nations and peoples; and more liberal global trade regimes and open markets, will contribute substantially towards enhancement of the environment, sustainable development and human rights, nationally as well as globally."

The introductory section in this paper discussed the pressures on the nation state and the challenges to the concept of the sovereignty of state, among other things because of the close interrelationship between the international environment and internal developments, including in the implementation of human rights.

This is why international cooperation in the area of human rights is important for its implementation in each countries. However, international cooperation that could enhance the implementation of human rights is not confined to this field alone, but should also involve other fields, particularly in the field of economic development. For develop-

ing countries social and economic rights is as important as civil and political rights. This should be understood by the Western advanced countries.

In its paper, ASEAN-ISIS also proposed that ASEAN should examine the feasibility of establishing an ASEAN Commission on Human Rights. It was noted that Europe, Africa and central-South America have established regional commissions for the protection of human rights. Asia, including ASEAN, does not have such a regional mechanism. Having such a commission could be beneficial for ASEAN on two grounds:

- (a) ASEAN could jointly develop and formulate actions in implementing human rights in accordance with the history, stage of economic development, values and political systems of the ASEAN countries. This is not meant to be a defensive device, particularly towards external pressures, but it should aim at a serious effort to promote human rights which meets its universality as well as the national interests of each of the ASEAN countries. In this way ASEAN could also participate actively in the formulation of human rights and its implementation globally which reflects the concerns and interests of the developing world. On the other hand, this Commission should also improve ASEAN's human rights implementation in each of the member country in accordance with ASEAN's ideas, visions, values, history and experiences, and in balance with universal principles and laws on Human Rights.
- (b) This commission could become the embryo or catalyst of a human rights commission for the Asia-Pacific region or

for Asia as a whole. An Asia-Pacific commission would enhance the region's international standing, but more importantly this could fulfill an important need regionally and globally since human rights has become a major issue in international relations. An input from the Asia-Pacific region is definitely a necessity.

Democracy, Values and Future Direction of ASEAN Developments

Robert Scalapino is of the opinion that a democracy must meet two conditions, namely: (a) a system that guarantees genuine political choice and protects the requisite freedoms to make such choice meaningful; and (b) the primacy of law over personalised rule.⁴

Assessed on the basis of those criteria, it can be debated whether there is an ASEAN country that fully meets them. What can be said is that each ASEAN country and society is undergoing rapid, wide-ranging, deep and complex changes as a result of their successes in economic development. Therefore, the challenges faced by the leaders and governments of the ASEAN countries are enormous. If the Western countries had about 200 years to develop their political, social and economic systems to reach the stage where they are now, the ASEAN countries have to do this only within one generation, namely about 20 years. In addition they also face different external pressures and uncertainties.

In spite of the many differences amongst the ASEAN countries they appear to face a

number of changes which are common to them all. They all have experienced remarkable economic growth and development which led to the emergence of a rapidly growing middle class which increasingly demands greater political participation. This is why the political systems in the ASEAN countries will have to become much more open. How this process will unfold depends upon the conditions in each of the ASEAN countries. Singapore, for example, which is the most developed among the ASEAN countries and will soon graduate to become a developed nation will also face greater pressures from within to become a full-fledged democracy in accordance with the criteria given by Robert Scalapino. A greater openness is also required to stimulate creativity and enhance the country's capabilities in basic research apart from the demands of its populace for greater political participation. Singapore's situations as a city state will definitely influence its future developments. As an economy which depends greatly on global developments and to become one of the centres of the world economy, its population must become more cosmopolitan if it is to survive in the global competition. Thus, Singapore's experience in this regard will be useful to other metropolitan centres in ASEAN. The efforts in Singapore to encourage its population to rediscover its cultural roots can help advance their internationalisation but they could as well become a source of stagnation. A Singaporean Singapore is still the ideal type for the ASEAN countries in the future.

At the other end of the spectrum of development, Indonesia faces the challenge of transforming its political system which entails a redefinition of civil-military relations towards a new national consensus. In the

⁴See his article "National Political Institutions and Leadership in Asia," in *Washington Quarterly*, Autumn 1992, 165.

coming decade, the military will continue to play a role in the society but the system must rely much more on civilian institutions. Indonesia, given its heterogeneous society, will face a greater challenge in the development of its modern values. It also is confronted with the problem of modernising the rural societies. The role of Islamic modern thinkers are crucial since Islam is the religion of the majority and because Islamic ideas are developing rapidly. It is hoped that Indonesia's cultural values of tolerance and consensus could help smoothen this transformation. It is important that the leaders and the various groups in society continue to stress on the importance of tolerance and consensus building.

All ASEAN countries face the same major challenge in finding their most appropriate political system and to maintain a balance in the development of their values as they become much more involved in global developments. The ASEAN countries can capitalise on their economic development which is likely to continue to grow rapidly in the next decade. This strengthens the legitimacy of their governments, but at the same time it means that the changes in the society will continue to proceed rapidly. The ASEAN countries will be successful in meeting those challenges if they could develop forms of governments which could meet the demands for openness while maintaining a sufficient degree of stability. A key to this development is the ability of the society to absorb modern values while maintaining its identity and self confidence.

In view of their history and experience, the societies in ASEAN have been able to adept to external influences during the past 2000 years there is no reason to believe that they cannot do so in the future. However, the difference today is that these changes are so rapid and so complex. But the ASEAN countries can learn from each other experiences and this will allow them to better face the challenges.

Conclusion

Current issues in international relations, such as human rights and the environment, are issues that the ASEAN countries cannot avoid and must face. It should also be noted that the sovereignty of states has taken a relative meaning because of the changes in international relations. Therefore, ASEAN needs to be more pro-active in influencing the development of those new issues so that they will not negatively affect the developments in the region. This suggests that the ASEAN countries should cooperate in the development of ideas on the new international relations which is currently undergoing a fundamental change.

In addition, each ASEAN country can learn from the other on how it can develop its political system and how to adjust to the rapid changes internationally and nationally. This is an important reason for further strengthening of ASEAN cooperation.

Human Rights Standard Setting in Asia: Problems and Prospects

T. Mulya Lubis

Introduction

THE comparison between governments on the Asian continent with those on the American, European and African continents reveals that Asian governments have substantially weaker records on ratification of international human rights instruments. At this point, it is interesting to read a statement of Hiroko Yamane, human rights scholar from Japan, who among others said:

"ASEAN governments tend to show a degree of reluctance to engage actively in human rights issues especially at the international level. Although the record of ratification of international instruments is not the best indicator of a country's concern for international promotion and protection of human rights, it does provide some guide".¹

Paper presented at ASEAN-ISIS Meeting on "Environment and Human Rights Issues in International Relations," hosted by Centre for Strategic and International Studies (CSIS), Senggigi Beach Hotel, Lombok, 20-21 April 1992.

¹Hiroko Yamane, "Approaches to Human Rights in Asia," in R. Bernhard and J.A. Jalowics, eds., *International Enforcement of Human Rights* (London: Springer-Verlag, 1987), 100.

Yamane's statement above reflects the reality of Asian governments. Such highly significant instruments as the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR) have been ratified by relatively few governments on the Asian continent. The ICESCR has been ratified by thirteen Asian countries, namely, Cyprus Democratic Kampuchea, Democratic People's Republic of Korea, India, Islamic Republic of Iran, Iraq, Japan, Mongolia, the Philippines, Republic of Korea, Sri Lanka, Syrian Arab Republic and Vietnam. The ICCPR has been ratified by also thirteen Asian countries, namely, Cyprus, Democratic Kampuchea, Democratic People's Republic of Korea, India, Islamic Republic of Iran, Iraq, Japan, Mongolia, the Philippines, Republic of Korea, Sri Lanka, Syrian Arab Republic and Vietnam. Of these thirteen countries, only Sri Lanka and the Philippines have made the ICCPR under Article 41 of the Covenant under which a state party agrees to allow other member states to bring to the attention of the Human Rights Committee allegations

of human rights violations.² Interestingly, out of thirteen Asian parties to the ICCPR, only Cyprus, the Philippines and Republic of Korea have ratified the *First Optional Protocol*.³ As we know, this Protocol allows an individual to bring a human rights complaint against a government including his own government before the *Human Rights Committee*, the body that monitors compliance to the ICCPR.⁴

Ratification of international human rights instruments can be interpreted as signifying some degree of commitment on the part of the government to human rights. Moreover, as formal member states of the United Nations (UN), the Asian countries must be considered ethically as well as legally bound by the UN Charter which in Article 55 stipulates that the UN "shall promote universal respect for, and observation of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion". Furthermore, according to Article 56, "All members pledge themselves to take joint and separate action in co-operation with the Organisation (UN) for the achievement of the purposes set forth in Article 55".⁵ In this regard, the Universal Declaration of Human Rights (UDHR), 1948, has a very special and monumental place in UN human rights actions not merely because it was the first human rights document adopted by the UN following its estab-

lishment in 1945, but primarily because the UDHR is considered by the international community as a common standard of achievement.⁶

Unfortunately, not all countries, and especially not those from the Asian countries, treat human rights as called for in UN norms. Asian governments' attitudes have typically reflected reservations, suspicion, and to certain degree a kind of actual antipathy.⁷ In some Asian countries, the prevalence of those attitudes can be seen in the country's human rights debates which have been characterised by ambiguity, vagueness, and inconsistency. However, Asian governments generally accept general principle that the area of human rights protection is of international concern. The UDHR is accepted widely as a document of great moral force, and quoted in many legal writings and journals. In the Philippines and India for instance, the UDHR has been cited as a legal source of right in significant decisions of the Supreme Court.⁸ As to other international human rights instruments, the records on Asian participation are not very enlightening, but it is interesting to note that the participation of Asian governments in more recent instruments such as the *Convention Against Torture and Other Cruel, Inhuman,*

²Purification V. Quisumbing, "Human Rights in Asia." Lecture at the International Human Rights Institute, Strasbourg, France, 2-4 July 1990, 8.

³Ibid.

⁴Ibid.

⁵For a stimulating discussion on how to use effectively the UN mechanism, see Tom J.M. Juidwijk, *Petitioning the United Nations: A Study in Human Rights* (New York: St. Martin's Press, 1982).

⁶William Korey, "Eleanor Roosevelt and the Universal Declaration of Human Rights," in David A. Gurewithsch, ed., *Eleanor Roosevelt: Her Day* (New York: Interchange Foundation, 1973), 26.

⁷Adamantia Pollis, "Liberal, Socialist and Third World Perspectives of Human Rights," in Pter Schwab and Adamantia Pollis, eds., *Towards a Human Rights Perspective* (New York: Interchange Foundation, 1973), 26.

⁸Quisumbing, "Human Rights in Asia," 8; interview with former chief Justice Bhagwati of Indian Supreme Court, 12 June 1988.

or *Degrading Treatment or Punishment*; and the *Convention on the Rights of the Child*. The first Convention has two Asian states parties, China and the Philippines, while Cyprus and Indonesia are the signatories.⁹ While the second Convention has nine Asian signatories (Mongolia, Vietnam, the Philippines, and Indonesia among others).¹⁰

Why have there been more participation of Asian Governments in ratifying international human rights instruments in the last few years? Obviously, there is no simple answer to this question, however, the observation of Purification V. Quisumbing from the Philippines is interesting to be quoted. She said among others:

“Asian countries appear to be more inclined to accept the more recently adopted human rights standard setting instruments. The theories offered that their active participation in the drafting process after the process of decolonisation in Asia) allowed them to register their inputs in the debate from the inception of the standard setting process. They are also now very active in the implementation and information activities of the human rights system in the UN”.¹¹

Quisumbing's statement is indeed very revealing, but how true it is remains to be seen. We can only hope that there would be more Asian participation in the process of drafting, debating, ratifying and implementing of those international human rights instruments.

Problems

In light of the argument that there is a certain reluctance on the part of Asian gov-

ernments to engage actively in human rights, we are entitled to wonder what the causes may be of the often cited reluctance, ambiguity, vagueness and inconsistency. That legitimate question requires a sound and critical answer, while recognising that no single answer can prove applicable to all aspects of this or any problem. While there are many similarities in the Asian culture, socio-political conditions vary from one country to another. In addition, the different colonial backgrounds of Asian countries helped shape attitudes toward supremacy of law and human rights.

The problem is not simply a matter of definition. It is a matter of understanding basic ideas of human rights, their origin, substance, and enforcement mechanisms. In this regard, three problems are instrumentally important to be looked upon in order to understand the prevailing attitudes of Asian governments toward human rights. Those problems are cultural, economic and political.

a. Cultural Problems

Theories on human rights tend to fall between those based on the natural rights theory at one end of the spectrum and those based on the cultural relativism theory at the other end. In between there are human rights theories based on positivist, marxist, religious and other perspectives. This list can be a long one but for our purpose it is appropriate to concentrate on the conflict between natural rights theory with the cultural relativism theory.

According to the natural rights theory, human rights are rights that belong to all human beings at all times and in all by virtue

⁹Ibid., 9.

¹⁰Ibid.

¹¹Ibid., 11.

of being born as human beings.¹² They include the right to life, liberty and property as envisaged by Locke.¹³ No recognition is needed for those rights, neither from government nor any legal system, because those rights are universal. To ask for recognition would reduce human rights to legal rights, making the state the source of human rights and thereby denying the naturalness of human rights.

By this reasoning, the source of human rights actually is humanity itself, being a person or human being.¹⁴ Those human rights are independent of the state and are therefore universal in character. As such, they are applicable to all human beings irrespective of their geographic location. In addition, these rights, possessed by every human being, have a negative character and are called negative rights, because the exercise of such rights requires no action or program on the part of any other party, be they individual, group or government.

The principal objection to natural rights theory comes from cultural relativism proponents who regard the natural rights theory and its emphasis on universality as an imposition of one culture on another, labeling it *cultural imperialism*.¹⁵ According to cultural relativists, there is no such thing as universal

rights, and the natural rights theory ignores the social basis of an individual's identity as a human being, because a human being is always the product of some social and cultural milieu. According to that theory, different traditions of culture and civilisation are different ways of being human; it follows, therefore, that rights which belong to all human beings at all times and in all places would be rights which people have as *desocialised* and *deculturised* beings.¹⁶

Interestingly, the notion to view human rights from a cultural perspective remains strong in Asia. In Indonesia, for instance, the appeal to search for an *Indonesian human rights* concept is often made in spite of the vagueness of the idea.¹⁷ The underlying reason seems clearly to be rejection of the notion of universality of human rights. Along this line, Sethi and Kothari, two Indian human rights activists, voice that similar sentiment in their writings:

"At one level we have the modernists, liberals or radicals, those who are stuck within the grooves of their universalist vision, a homogenous world which has to be created through a creative application of state power either now or in the socialist utopia. Facing them are the traditionalists who are content with pointing out the disjunction and the consequent loss of moral legitimacy, in pushing a world view of rights in a soil that refuses to accept it."¹⁸

To a certain degree the sentiment is sound and understandable. There must be a way to reconcile what is called *universalism* and *socio-cultural condition* as is done in the process of constructing international human

¹²A.J.M. Milne, *Human Rights and Human Diversity* (Albany: State University of New York Press, 1986), 1; see also Jack Donnelly, *The Concept of Human Rights* (New York: St. Martin's Press, 1985), 8-27.

¹³Maurice Cranston, *What Are Human Rights?* (New York: Basic Books, 1982), 1-3.

¹⁴Donnelly, *Concept of Human Rights*, 27.

¹⁵Pollis and Schwab, "Human Rights: A Western Construct with Limited Applicability," in Adamantia Pollis and Peter Schwab, eds., *Human Rights: Cultural and Ideological Perspectives* (New York: Preager Publishers, 1976), 1-36.

¹⁶Milne, *Human Rights and Human Diversity*, 4.

¹⁷Satjipto Rahardjo, "Wajah Indonesia Hak-hak Asasi Manusia," *Kompas*, 20 October 1979.

¹⁸Harsh Sethi and Smitu Kothari, "On the Politics of Human Rights: On Categories and Intervention," *Lokayan Bulletin* 4/5 (1987): 9.

rights instruments. The UDHR, the ICCPR and the ICESCR are good examples of human rights instruments that attempt to reconcile universalism and cultural relativism. In the three instruments, a diversity of cultures, each with its unique expressions, is preserved to the extent that rights to life, liberty, security and property are not threatened. This reconciliation is extremely important in order to avoid *permissible killings* or other gross violation of human rights in certain cultures. Failure to reconcile those two nations may end up in acceptance of *extra-judicial executions*; this has in fact happened in a number of countries which allegedly make cultural justification for gross violation of human rights.¹⁹

b. Economic Problems

The phrase *economic development* is key to an understanding of many Asian countries. Economic development has been considered central, and non-economic development depends on the accomplishment of economic development. Interestingly, economic development is always referred to as *economic rights*, and non-economic development is referred to as *non-economic rights*, another way of referring to civil, political, social and cultural rights. This distinction, or dichotomy, is not only wrong, but misleading in every sense given the fact that human rights should be seen from indivisibility of rights perspective.²⁰

If the measures of success are economic growth, increased per capita income, and a significant amount of both foreign and domestic investments, many Asian countries including Indonesia deserve credit for all their efforts. Some Asian governments have done an impressive job in transforming their countries from the disorder and bankruptcy into an orderly economy where progress has been made. As we know, few Asian countries have been labeled as *newly industrialising countries* (NICS), and few others are being called as *nearly new industrialising countries* (near NICS).

The central position of economic development should be seen not merely as a shift from one extreme of economic theories to another, but as evidence of sincere conviction on the part of the governments that economic development brings with it all benefits, and that therefore all endeavours should be undertaken to make economic development successful. Implicit in this thinking is the notion that non-economic development, or civil, political, social and cultural rights have to be temporarily suspended. The governments argue that no country can have both economic development and non-economic development at the same time. This is not to say that no Asian countries observe civil, political, social and cultural rights, but it is not wrong to conclude that in many Asian countries economic development has been treated as *primadona* and at the same time neglecting and undermining the necessity of human rights observance.

c. Political Problems

One basic feature of Asian governments is obsession toward harmony which is being translated as security and order. With the ex-

¹⁹T. Mulya Lubis, "In Search of Human Rights: Legal Political Dilemmas of Indonesia's New Order, 1966-1990," (Ph.D. diss., submitted to the Law School, University of California, Berkeley, 1990), 20.

²⁰*Ibid.*, 35-42.

ception of very few, most Asian governments have been known as developmentalist regimes which guard and secure their economic development by applying *policy of coercion*. The degree of coercion differs from one country to another but the main objective is to guarantee the highest degree of success in their economic development. It is the highest degree of success in their economic development. It is the success of economic development that brings and enables the society to gradually enjoy its political rights.

In that connection, it is interesting to note the observation of two political scientists, Neil Mitchell and James McCormick, who write:

"Economic modernization, it is sometimes argued, leads to political stability and in turn, to increased respect for human rights. The poorest countries, with substantial social and political tensions created by economic scarcity, would be most unstable and thus more apt to use repression in order to maintain control."²¹

They conclude that countries which enjoyed higher levels of economic well-being had consistently better human rights record than those that did not.²² Mitchell and McCormick may be right to a certain degree despite possible differences on what is meant by "better human rights records". Not to be overlooked, however, is the fact that countries described as enjoying higher levels of economic well-being also have human rights records as bad as or worse than poor countries.²³

²¹Neil J. Mitchell and James M. McCormick, "Economic and Political Explanation of Human Rights Violations," *World Politics* 40 (4 July 1988): 478.

²²*Ibid.*, 497.

²³Compare the human rights situation in South Korea and Sri Lanka. It is difficult to deny that even

To place economic development as a number one priority would eventually force the government to be weakened, and neglect political development. Perhaps, this is too simplistic, but a kind of regularisation is needed in order to stabilise the situation because only stability can guarantee progress in economic development. Therefore, it is because of this line of thinking that political forces such as political parties, the press, social organisations and labour unions must be regularised.

Prospects

Are there prospects for human rights? We will be blamed by our own history if we have no confidence and hope for the future of human rights. Gradually, human rights would be enshrined in various constitutions and legislations. The Philippines, for instance, adopted a new constitution in which many human rights provisions are stipulated. The constitution itself is called "Human Rights Constitution", the best constitution in this region as far as human rights are concerned.²⁴ While in other Asian countries we might have noticed that legal reform especially in the criminal procedures have been taking place such as in Indonesia

though South Korea in terms of economy can be considered a *newly industrialising country* (NIC), its human rights record has not yet improved. On the other hand, Sri Lanka, obviously is not a developed country -- and, as in South Korea, human rights violation continue. See "Outcry," *Report of the North-East Asia Church Leaders Meeting*, held by the Christian Conference of Asia, Hong Kong, 16 December 1987, 21-33. As for Sri Lanka, see Allison Wyne, *Lament for Lanka* (Hong Kong: Christian Conference of Asia, 1988), 1-148.

²⁴Lubis, "Dilemmas of Indonesia's New Order," 34.

with its new Criminal Procedures Act.²⁵

Another interesting development that has been taking place is the emergence of what is called *newly industrialising countries* (NICS) such as South Korea, Taiwan, Hong Kong and Singapore. The countries have reached a certain level of economic development in terms of industrialisation, technology and knowledge.²⁶ Income per capita in these four countries is above the other Asian countries excluding Japan, therefore, people have more access to education and international training programmes. As a result, more and more people are becoming critical and aware of their basic rights, and that eventually strengthen the demand of human rights.

It might be true that a kind of new middle class is emerging in Asian societies although many people would argue that the so-called new middle class lacks of independency as seen in the rise of middle class in Europe after the French Revolution. Nevertheless, this new middle class -- or middle group²⁷ -- will strive for the need to have rule of law, democracy and human rights because only with the existence of those three basic values their future will be secured. Needless to say that without rule of law, democracy and human rights, the middle class will not survive.

a. Bankruptcy of Trade-Off Theory

As explained earlier, many governments argued that no country can have both eco-

nomic development and non-economic development (civil and political development) at the same time. As happened in many Third World Countries, non-economic development was sacrificed at the altar of economic development, even though economic development is considered a *necessary evil*.²⁸

The trade-off between economic development and non-economic development, or what is widely regarded as the trade off between development and human rights arose from the idea that:

"... the exercise of many human rights, both economic, social and cultural, and civil and political, interferes with or slows the rate of economic growth and development. Therefore, it has been regularly argued that in the interest of both human rights and development many, even most, internationally recognized human rights must be suspended."²⁹

In that connection, it is interesting to note the observation of two political scientists, Mitchell and McCormick as quoted earlier that economic modernisation would be a prerequisite to come to a situation in which human rights would be respected.³⁰ The trade-off between economic develop-

²⁸Ved P. Nanda, "Development and Human Rights: The Role of International Law and Organizations," in George W. Shepperd and Ved P. Nanda, eds., *Human Rights and Third World Development* (Westport Greenwood Press, 1985), 293; see also Gustav F. Papanek, "Capitalist Development and Income Distribution," in Peter L. Berger, ed., *Capitalism and Equality in the Third World* (Boston: Hamilton Press, 1987), 248-253.

²⁹Donnelly, "Human Rights and Development: Complimentary or Competing Concerns," in Shepherd and Nanda, *Third World Development*, 27; see also John A. Rawls, *A Theory of Justice* (Cambridge: Harvard University Press, 1978), 150-161.

³⁰Mitchell and McCormick, *Human Rights Violations*, 478.

²⁵Ibid., 84-125.

²⁶Ibid.

²⁷Daniel S. Lev., "Human Rights NGOs in Indonesia and Malaysia," in Claude E. Welch Jr. and Virginia A. Leavy, eds., *Asian Perspectives on Human Rights* (Boulder: Westview Press, 1990), 142-161.

ment and non-economic development needs to be continued. The question is no one knows when and where it will end. The newly industrialising countries, for instance, have for more than twenty years concentrated on developing their economies by the conscious neglect or suspension of their political development, thereby limiting their citizens exercise of political rights. Although many people have risked their lives demanding more respect toward political rights, the governments seemed to commit themselves to rather symbolic changes. In their philosophy, the trade-off theory prevails.

This raises a legitimate question: is trade-off a correct and acceptable policy? Until now, debates over this question remain unresolved. Bhagwati, former Chief Justice of the Indian Supreme Court, has implied that economic development is a prerequisite to the people's enjoyment of their civil and political rights. He has written:

"... though civil and political rights are priceless and invaluable, because without them freedom and democracy cannot survive, they just do not exist for the vast masses of people in the developing countries who are suffering from poverty, want and destitution. It is only if social, economic and cultural rights are ensured to these large masses of people that they will be able to enjoy civil and political rights..."³¹

Jack Donnelly, political scientist, seems to accept the concept of limited trade-off with some sacrifices as necessary, but he rejects the categorical acceptance of trade-off, calling it not only unnecessary but often harmful to both development and human rights. He urges that concern for human rights be

incorporated into the core of development planning.³²

At the other end, Robert Goodin, also political scientist, takes a firm stand rejecting the notion of trade-off. According to Goodin, if a state can justly sacrifice some civil rights for some increase in economic well-being, then we can equally expect that state to purchase some civil rights at the cost of economic well-being. The idea holds danger for the future of human rights.³³

The trade-off theory has also been criticised for failure to produce what among the economists is called trickle-down by which the poor are ultimately beneficiaries of development. As the history of many states indicates, economic development does not necessarily produce trickle down to the poor.³⁴ Income inequality widens, which in turn reinforces social inequality. That is why among economic planners there have been discussions on how to prevent social inequality from exploding: once an explosion occurred, economic setback could be expected to generate results:

³²Donnelly, "Complimentary or Competing Concerns," 29; see also T. Mulya Lubis, *Bantuan Hukum dan Kemiskinan Struktural* (Jakarta: LP3ES, 1986), 14-36.

³³Robert O. Goodin, "The Development-Rights Trade-Off: Some Unwarranted Economic and Political Assumptions," *Universal Human Rights* (April-June 1979): 31-42.

³⁴Montek Ahluwalia, "Income Inequality: Some Dimensions of the Problems," in Mitchell A. Seligson, ed., *The Gap Between Rich and Poor* (Boulder: Westview Press, 1984), 15-17; see also Robert B. Stanffer, "The Political Economy of Refeudalization," in David A. Rosenberg, ed., *Marcos and Martial Law in the Philippines* (Ithaca: Cornell University Press, 1979), 197.

³¹P.N. Bhagwati, *Dimensions of Human Rights* (Madurai: Society for Community Organization Trust, 1987), 26.

It is for this very reason that many people argue that the trade-off theory is not only inadequate, but bankrupt. The notion of indivisibility of rights as subscribed by the rights to development in which civil, political, social, economic and cultural rights are regarded equally important would dismiss any theory that maintain the dichotomy of rights. From the theoretical perspective, the trade-off is already bankrupt, and in our reality no such dichotomy will survive.

b. The Rise of the Middle Class

It has been argued that economic development has produced a new middle class consisting of managers, young entrepreneurs, professionals and to some extent, intellectuals. Their number is still relatively small, however, their open remarks have caused a lot of uneasy feelings especially among the establishment. Their positions are not always similar, but most of them aspire to a strikingly similar goal: the guarantee of the rule of law as opposed to the rule of the ruler, favouritism or primordialism. A new consciousness has arisen resulting from the constant fear that if the tradition of rule of law is not strengthened, then the future of society, and with it the future of human rights would be in jeopardy, dependent solely on the discretionary power of the ruler.

At this stage, it may be premature to call these people a new middle class, but it would be hard to deny that the group of young energetic managers, entrepreneurs and professionals, is growing rapidly, while at the same time their ideas of professionalism are being introduced. Admittedly, professionalism may not be widespread, but its impact is increasingly felt. In almost every Asian

country the voice of these young people demanding economic reform can be heard. The reform may not be in accordance with the basic needs of the people at large, but it certainly will change the existing business structure which has been characterised by a great deal of interference of government.³⁵ Therefore, it is not entirely wrong to conclude that there has been a growing tendency of the people themselves organising their daily life especially in the economic field. Undoubtedly, this can be regarded as growing recognition of the right to organise.

In a parallel development, a new group of non-governmental organisations (NGOs) is also emerging, impressive as viable and vocal advocates of reform. In the last two decades, growing numbers of concerned intellectuals, student activists, and informal leaders have become involved in NGOs.³⁶ The NGOs that label themselves partners or critical partners of the governments aim for the most part at awakening and facilitating people's true participation in determining their future, be it political, economic or legal.³⁷ Such NGOs may not yet be strong enough to form a political alliance, but they could help influence public opinion and push the government to greater responsiveness.

Needless to say that the NGOs together with the young managers, entrepreneurs and professionals may appear as a significant pressure group, not to say political alliance despite their unique and conflicting charac-

³⁵Lubis, "Dilemmas of Indonesia's New Order," 299.

³⁶Lev, "Human Rights NGOs," 142-161.

³⁷Philip Eldridge, 'BL' "LSM dan Negara," *Prisma* 7 (1989): 35-55, and Ismid Hadad, "Menampilkan Potret Pembangunan Berwajah Swadaya Masyarakat," *Prisma* 4 (1983): 3-25.

ters one with another. If our immediate concern is to awaken people about their rights, then this emerging new middle class can pave the way to a better human rights consciousness.

c. The Impact of Globalisation

Despite the prevalence of political regularisation in many Asian countries, their economic developments seem to open their border to international economic cooperation in various forms. Foreign investment, licencing and franchising arrangement, technical assistance and financial grant have become common practice in almost every Asian country. No one country can develop its economy without some sort of cooperation with another country whether from the government or private sectors. Interdependency of our economy has become very apparent as world wide phenomenon. It may not be a mistake if some people argue that actually the concept of nation-state has already been inadequate, not to say absolute, in keeping up with the inevitability of interdependency, or what many people refer to as economic globalisation.

Globalisation has opened almost every country to international scrutiny and pressures. The Indonesian government is no exception; it has been experiencing scrutiny and pressure from its early days. Alleged human rights violation from land expropriation cases up to the November 12, 1991 incident in Dili have been strongly protested and condemned by international as well as regional human rights organisations.³⁸

³⁸Lubis, "Dilemmas of Indonesia's New Order," 300.

International protests may not be overly significant or credible in some instances, but neither can they be dismissed. However, to conclude that international protest has caused changes in human rights policies would be difficult. But many governments have, for instance, engaged in somewhat limited legal reform by enacting various laws in line with international human rights instruments. Indonesia enacted a new criminal procedures code (KUHP) and established an administrative courts as part of the policy to observe and uphold human rights. Certainly, those two mentioned are far from perfect, but they must be regarded as good steps in the right direction.³⁹

In addition, we should also take into account the signing of various conventions such as the Convention Against Torture and Other Cruel, Inhuman or degrading Treatment or Punishment by many Asian countries.⁴⁰ As we know, Indonesia also signed this Convention, but more than that Indonesia has joined the UN Commission on Human Rights as a member, and not an observer. This signifies a new human rights policy despite suspicion that it is aimed at countering international human rights criticisms. By joining the UN Human Rights Commission, the government may be indicating an interest in improving its human rights record.

Customary International Law

Central to human rights is enforcement: without enforcement, human rights do not really exist. A problem lies in the fact that in

³⁹Ibid., 84-125.

⁴⁰Quisumbing, "Human Rights in Asia," 8-13.

many parts of the world, enforcement of human rights appears to be arbitrary.⁴¹ In many cases, the judiciary does not function properly, and has insignificant power. In addition, there are several legal problems that cause non-enforcement, or delay enforcement: *first*, the Constitutions and national laws subscribe to a limited notion of human rights; *second*, few, if any of the international human rights instruments have been ratified.⁴²

As to the first problem, concerned citizens will need to push the government to introduce human rights provisions, either through constitutional amendments or new legislations. It requires political organisations, interest groups, and intellectuals to create public opinion conducive to such constitutional amendments or legal reforms. The absence of national laws on human rights should not, however, prevent the international human rights instruments from being enforced, because those instruments are regarded as part of customary international law.⁴³

The UDHR, for instance, is regarded as a common standard of achievement for every state, especially those who are members of the UN.⁴⁴ Every state is ethically bound by the UDHR, a channel through which it

honors its commitment to the UN Charter which aims at promoting respect for and observance of human rights and fundamental freedoms.⁴⁵

Unlike the UDHR, the ICCPR, the ICESCR and several other international human rights instruments are treaties subject to ratification. Without ratification, the ICCPR, the ICESCR and other international human rights treaties would have no legal grounds for enforcement.⁴⁶ They rely on a treaty-based technique, and governments that have not ratified human rights treaties may choose not to consider themselves bound by the terms of those treaties.

The ICCPR contains no requirements that it be incorporated into domestic law. It requires only that the government take necessary steps to adopt such legislation or other measures as may be necessary to give effect to the rights recognised. This leaves open the precise legal character of the measures. It could include incorporation of the ICCPR into internal law, enactment of legislation, administrative order, or other procedures.⁴⁷

The key question in this case, therefore, is whether ratification is a *conditio sine qua non* for enforcing international human rights instruments. Lawyers, human rights activists, and government officials have long argued this and still disagree as to the correct

⁴¹Donnelly, "Complimentary or Competing Concerns," (note 12), 15-20.

⁴²Lubis, "Dilemmas of Indonesia's New Order," 31.

⁴³Zuidwijk, *Petitioning the UN*, 100-104; see also *Montreal Statement of the Assembly for Human Rights*, adopted by consensus at a conference of private individuals, held during the International Year for Human Rights, in Montreal, Canada, 22-27 March 1968.

⁴⁴Korey, "Eleanor Roosevelt," 26.

⁴⁵Cranston, *What are Human Rights?*, 29-42; see also Richard B. Lilich and Frank C. Newman, *International Human Rights: Problems of Law and Policy* (Boston: Little Brown Company, 1979), 15-51.

⁴⁶Oscar Schachter, "The Obligation to Implement the Covenant in Domestic Law," in Louis Henkin, ed., *The International Bill of Rights* (New York: Columbia University Press, 1981), 311-331.

⁴⁷*Ibid.*

answer. Even within the UN, inconsistencies in condemnations of human rights violation may be found.

It is not uncommon to see outright rejection of international human rights instruments using the argument that once within the realm of domestic jurisdiction, everything falls exclusively under national law, and as long as there is no ratification of international human rights instruments, these instruments do not become part of national law.⁴⁸

Meanwhile there are lawyers, especially among human rights activists, who contend that the international human rights instruments, and particularly the UDHR, have become part of customary international law. There are general reasons that back up that contention:

1. By becoming a member of the UN, the government in question is, as stipulated in articles 55 and 56 of the UN Charter, obliged to promote the observance of human rights and fundamental freedom.⁴⁹ Human rights and fundamental

freedoms are not limited to those stipulated in the UDHR, but in subsequent documents as well.

2. Human rights provisions have been incorporated in many national constitutions and laws.⁵⁰ The Indonesian, Malaysia and the Philippines Constitutions, among numerous others, stipulates human rights provisions.
3. Frequent references in UN resolutions and declarations to the duty of all states to observe faithfully the UDHR.
4. Statements by national officials criticising other states for serious human rights violations by referring to the UDHR.
5. A dictum of the International court of justice that obligations *erga omnes* in international law include those derived from the principles and rules concerning basic rights of the human persons.
6. Decisions in various national courts that refer to the UDHR as source or standard for judicial decisions.⁵¹

A further point of reference is the Montreal Statement of the Assembly for Human Rights which stated in March 1968, twenty years after the adoption of the UDHR, that the UDHR constitutes an authoritative interpretation of the UN Charter of the highest order, and that the UDHR has over the years

⁴⁸Lilich and Newman, *Problems of Law and Policy*, 68-77. Many international law scholars argue that treaties, particularly multilateral treaties, bind not only ratifiers but other states as well. For discussions on this subject, see Burns H. Weston, Richard A. Falk and Anthony A. D'amato, eds., *International Law and World Order* (St. Paul: West Publishing Co., 1980), 19-33.

⁴⁹The UN Charter, art. 55, "With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations promote: (a) higher standards of living, full employment, and conditions of economic and social progress and development; (b) solutions of international economic, social, health, and related problems; and international cultural and educational co-operation; and (c) universal respect for, and observance of, human rights

and fundamental freedoms for all without distinction as to race, sex, language, or religion." Art. 56, "All members pledge themselves to take joint and separate action in cooperation with the organisation for the achievement of the purposes set forth in art. 55.

⁵⁰See, for instance, the *Constitution of Malaysia*, arts. 5-13; the *Philippines Constitution*, art. 3; and the *1945 Constitution of Indonesia*, arts. 27-34.

⁵¹Schachter, "Covenant in Domestic Law," 311-331; see also Zuidwijk, *Petitioning the UN*, 90-104.

become a part of customary international law.⁵²

At present, forty-three years since the UDHR was adopted by the UN General Assembly in Paris, little doubt remains as to the status of the UDHR as part of customary international law. If at this point the argument for acceptance of the UDHR as part of customary international law is widely accepted, the countries actually abiding by the UDHR are still a minority in the world. Regrettably, while the UN has succeeded in creating an impressive body of human rights norms though its works, it has not as yet succeeded in translating them into practice. The UDHR, therefore, remains the common standard of achievement as aptly described in its Preamble.

Conclusion

What is the future of human rights in Asia? There is no simple answer to this ques-

tion. But one clear fact is that constraints are extraordinary, and in some cases are being diametrically opposed to the promotion or protection of human rights. At the same time, with all internationalisation and globalisation that are still taking place, the gradual acceptance of human rights will be inevitable. Our history will not go backward, and human rights will be seen as a human safeguard for our civilisation. Dichotomy of rights, therefore, will be ceased as an issue, and development will also cover social, political and cultural dimensions.

There will come a time when civil and political rights will be necessary partners to economic, social and cultural rights, if an egalitarian and democratic society is to be achieved. Failure to recognise that need would inevitably lead to serious setback ending in anarchy or social revolution. With all that in mind, however, a somewhat guarded optimism is by no means unreasonable. The possibility of a human right peaceful evolution in this era of globalisation is growing increasingly stronger.

⁵²See *International Commission of Jurists* 9 (1968): 94.

Human Rights and Aid: A Canadian Perspective

Christopher J. Dagg

Introduction

THIS paper focuses on the issue of linking human rights and development assistance. It is an issue that has caused the most severe crisis in Canadian-Indonesian relations in thirty years, since the Soekarno years of Confrontation. It contains a short section on the Indonesian perspective, seen through the eyes of a Canadian, and based on discussions in many parts of Indonesia with many people of many walks of life over two decades, but particularly over the past year. It concludes with thoughts on ways in which Canada can have real effect on the development of human rights, not just in Indonesia, but on a global scale, while playing its traditional, but now

threatened, role of bridge between the developing and developed worlds.

Canadian Developmental Assistance to Indonesia

The Indonesia programme has been one of the largest of Canada's bilateral assistance programmes, with disbursements in the neighbourhood of C\$50-80 million since 1985. While Canada has hopes of developing a stronger economic relationship with Indonesia, growth in trade between the two countries, given the products they produce and their respective markets, and the competition Canada faces, will be modest in the foreseeable future. It is therefore necessary to look for additional reasons for Canada's development interest in Indonesia than simply the potential for trade.

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One reason is Indonesia's absorptive capacity. Canadian development assistance funds, generally speaking, are quickly disbursed and effectively used. In fiscal year

1991-92, the Indonesian programme disbursed very close to 100 per cent of its committed funds, a figure very rarely realised. Objectives are met. Senior managers, and the growing number of middle managers, are skilled and responsive, and good working relationships are easily forged. Canadians can operate effectively and, again generally speaking, develop in their working environment strong attachments and a strong sense of commitment. Thus, aid well spent attracts more aid.

Another reason for the priority that Canada gives to Indonesia is that, through its Indonesia programme, Canada has been able to give meaningful expression to its interest in sophisticated and complex issues that lie on the leading edge of development, among them: sustainable development; environmental issues; bottom-up regional and rural development; human resource development; the role of women; institutional strengthening; participatory planning.

In addition, the Indonesia programme has served successfully over the years as a testing ground for new approaches to and methodologies in development. Some of these have been: (1) the development of partnerships: taking particular care to involve Indonesian agencies in all stages of a Project -- planning, implementation, and evaluation -- to develop a sense of ownership as well as lasting relationships. Related to this is an emphasis on bottom-up, participatory planning; (2) integrating considerations related to the role of women as participants and recipients of development in all components of all projects; (3) in-depth and long-term geographic focus, in CIDA's (Canadian International Development Assistance) case, on eastern Indonesia, where CIDA's human resource development, rural development,

and water resource management programmes have been centred for almost a decade; (4) acceptance of the principle that the process adopted by a development project is as important as, if not more important than, its tangible product; avoidance of fixed project blueprints in favour of adaptable on-going planning mechanisms that exercise and strengthen existing development management institutions and processes.

A fourth reason is that Canadian public and private sector capabilities have proved well-suited to Indonesia's developmental needs, and many organisations have developed significant expertise in Indonesia. Engineering companies such as Lavelin, Monenco, H.A. Simons, CPCS, Crippen, and A.E. Lea, are among the many large Canadian firms that, through long experience on CIDA, World Bank, or Asian Development Bank (ADB) projects, have become well-known and reliable contractors in Indonesia.

Canadian universities are executing agencies for projects that reflect CIDA's priorities in Indonesia: training for faculty members at Indonesian Islamic educational institutions at the Islamic Institute at McGill; strengthening science programmes at eastern Indonesian universities (EIUDP, Simon Fraser University); strengthening decentralised integrated rural development planning and management (SRDP, University of Guelph); training environmental specialists and helping develop the body of regulations governing environmental control (EMDI, Dalhousie); and training irrigation planners and engineers (Manitoba).

Canadian non-governmental organisations, including WUSC, CUSO, the Canadian Cooperative Association, CARE,

MCC, and USC, have succeeded in making significant contributions in Indonesia and have formed close and mutually beneficial partnerships with indigenous NGOs. Canadian interest and skill in issues related to women in development has found expression in a project to assist the Indonesian Ministry of State for the role of women as well as through such projects as EIUDP, which is initiating the development of networks among women in science and technology, and SRDP, which provides comprehensive training in the role of women at the rural level.

Among investors from Canada, INCO Ltd. is the largest, and its subsidiary, PT INCO, has become an important development agent in Sulawesi, a role for which the private sector receives inadequate recognition. Its community development programme broke new ground and became a national model for corporate behaviour when it was initiated in the 1970s, and its training programme has enabled thousands of Indonesians to realise their potential and to develop marketable skills.

The magnitude, and composition, of Canada's aid programme was also based on a recognition of Indonesia's place in South-east Asia and its more assertive and influential role internationally, and of the progress made on many fronts in Indonesia since the chaotic 1950s and 1960s. The skillful management of the Indonesian economy, the progress made in health care and education, the attention being devoted to equitable development among groups and regions, success in reducing levels of poverty -- all place Indonesia apart from most other recipients of Canadian aid.

A sixth reason for both the concentration

of Canadian developmental activity in Indonesia and its success relates to the strength of inter-personal relationships between individual Indonesians and Canadians. Canadians have long dealt with a group of Indonesians that can generally be defined as among the most forward-looking proponents of change in the society. These close personal and professional relationships have existed at the ministerial level, but also at the middle-management and, indeed, the community level. By and large, Canadians have found in these individuals shared values and aspirations, and a common concern for human rights and development. Again, generally, Indonesians working with Canadians find Canadians to be fair, undogmatic, flexible, sympathetic, willing to learn, understanding of Indonesia's development problems, and respectful of the country's institutions, culture, and traditions. The sense of trust and respect created by these relationships permeates the whole of Indonesian-Canadian relations and created an atmosphere in which Canada's role in Indonesia grew quite out of proportion with its modest levels of aid, investment, and trade.

It is this atmosphere, and the standing it has given Canada in Indonesia, that may be the most important factor of all in the Canadian-Indonesian relationship, and that, both sadly and ironically, is the most endangered by the current dispute between the two governments over human rights.

Canadian Aid and Human Rights

The debate over linking developmental assistance to the human rights records of its recipients is a familiar one in Canada, and has been a recurrent theme under successive

governments since at least the 1960s.¹ Under the current government, the debate can be traced back to 1987. In May of that year, the Report of the Standing Committee on External Affairs and International Trade on Canada's Official Development Assistance Programmes and Policies, or the "Winegard Report", recommended a radical realignment of Canadian development assistance. It recommended, among other things, that:² (a) human rights criteria be developed coherently as part of overall Canadian foreign policy, and that these be applied in a universal, consistent and transparent manner; (b) ... progress on human rights be considered part of development, with assessments of the human rights situation in a given country being related to the overall record of development, particularly from the vantage point of the poorest people. And: (a) CIDA begin immediately to elaborate a Human Rights in Development policy framework, with an appropriate country classification grid ...; (b) countries deemed to be 'human rights negative' ["extreme cases judged by the international community to be guilty of persistent gross and systematic violations"] be automatically declared ineligible to receive direct government-to-government assistance.

Countries classified "Human Rights Watch", on the other hand, were where cases existed of lesser or variable concern in which serious allegations have been made but there are many gray areas and develop-

ment progress is still possible. Any direct bilateral assistance would be very carefully targeted and monitored.

In its replies to the Winegard Report, the Government was responsive but cautious. It agreed with the spirit of all recommendations and accepted most. "As a starting point in Canada's development assistance policies, assessments of human rights policies and practices will be made concrete factors in decision-making on aid determination".³ But it expanded, in effect, on the "grey areas":⁴ (1) The government is of the opinion that it is difficult to establish strict theoretical criteria in the field of human rights that would be operationally effective in development policy ... Such standards as currently exist internationally ... are very general in nature. Because of the diversity of legal systems, social values and traditional structures in the countries in which CIDA functions, it is difficult to draw fixed and coherent rules in an area as controversial as human rights; (2) Moreover, the attitudes of other countries and peoples are not identical to those of Canada in the field of human rights, and these differences of emphasis and value cannot easily be reconciled within a global framework. To the extent that criteria can be established against which to judge the performance of other countries, the most valuable guide is to focus on those violations of human rights that are systematic, gross,

³CIDA, *Sharing Our Future: Canadian International Development Assistance* (Ottawa: Supplies and Services Canada, 1988), 31.

⁴CIDA, "To Benefit a Better World," *Response of the Government of Canada to the Report by the Standing Committee on External Affairs and International Trade on Canada's Official Development Assistance Policies, and Programs* (Ottawa: Supplies and Services Canada, September 1987), 50.

¹See Irving Brecher, ed., *Human Rights, Development, and Foreign Policy; Canadian Perspectives* (Halifax: The Institute for Research in Public Policy, 1989).

²House of Commons, Standing Committee on External Affairs and International Trade, "For Whose Benefit?" *Report on Canada's Official Development Assistance Policies and Programs* (Ottawa: Supplies and Services Canada, May 1987), 26-30.

and continuous, whether in the field of civil and political rights, or in the field of economic, social and cultural rights.

The first major test of this qualified aid-human rights linkage policy came with the Tiananmen Square incident in mid-1989. The Government's response was quick and incisive but designed to maintain a relationship with China and avoid its isolation. Following a conference in late June 1989, called by the Secretary of State for External Affairs, of development agencies, universities, and private sector representatives, three major bilateral assistance projects were cancelled, four were postponed, and a major hydro feasibility project was indefinitely suspended. All of the projects affected were major bilateral government-to-government projects in which the Chinese Government had already made considerable investment.

However, an attempt was made to retain a relationship. New bilateral projects remained possible, but needed to meet three criteria: (1) they must focus people-to-people exchanges; (2) they must preserve existing linkages, be they government-to-government, university, or private sector; and (3) they must not assist the military, police, or propaganda establishments.

The Tiananmen Square incident became the model by which later human rights -- aid decisions were made for the next two years. In late 1991, however, the Prime Minister restated and reinforced government policy. At the Commonwealth heads of government meetings in October of that year, he drew a more direct link between Canadian development assistance and the human rights records of its recipients and called on the organisation to follow his lead. In Harare on

October 16, he said:⁵

"Since 1987, human rights have been a concrete factor in Canada's annual cabinet review of development assistance policy. Since then, a country's human rights record has helped determine the share that country is allocated of our development assistance funds ... Human rights considerations also help determine the channels we use to disburse the assistance ...

In Canada's judgment, it is indispensable to the credibility of the Commonwealth that its Harare declaration make clear that nothing in international relations is more important than respect for individual freedom and human rights. For Canada, the future is clear: we shall be increasingly channelling our development assistance to those countries that show respect for the fundamental rights and individual freedoms of their people. Canada will not subsidize repression and the stifling of democracy."

It is in the context of this speech, press and opposition parties' reaction to it, and the sequence of events in the month that followed it, that the Canadian Government's response to the incident in Dili, East Timor, on November 12, 1991, must be seen.

The Canadian press variously characterised the response by other Commonwealth governments to the Prime Minister's initiative as being from lukewarm to hostile. Also, less than a week after the Prime Minister's speech, during a lengthy Supply Debate in the House of Commons, opposition members questioned the Government's motives and willingness to follow through on its principles. Speaking to his own motion⁶ ... that this House take note of the Prime

⁵Office of the Prime Minister, "Global Report: World Political Overview," Notes for a Speech by Prime Minister Brian Mulroney, Commonwealth Heads of Government Meeting in Harare, Zimbabwe, 16 October 1991.

⁶House of Commons, *Debates*, 22 October 1991, 3769, 3770, 3777.

Minister's recently stated commitment to the principle of linking aid to respect for human rights and, in light of documented violations of human rights in such countries as ... Indonesia ... that this House urge the Government to ... review immediately all international programmes to ensure that they meet the aid criteria as announced by the Prime Minister, Svend Robinson asked "why is there this last minute conversion to principles of linking human rights with financial aid and financial support? Why is that? Why are they not practising what they preach?"

Speaking for the government during the Supply Debate, Benno Friesen, the Parliamentary Secretary to the Secretary of State for External Affairs, outlined how the government sought to respond to human rights and aid cases. It was an approach that reflected both the government's deliberate but cautious responses to the Winegard Report and the Tiananmen Square incident with the increased importance assigned to linking aid and human rights by the Prime Minister a week before.

"... we have to cooperate for pragmatic changes. In discussions with new democracies we stress that we want to work with them as allies and partners to improve the situation in their region and to sustain reforms in their countries.

... we want to make sure we have a long-term perspective. Human rights are partly a question of attitudes and changing attitudes take time ...

Tailoring an appropriate Canadian policy response is the most difficult and sensitive part of human rights as a foreign policy issue. What we are seeking to do, in essence, is to take the policy instruments at our disposal and apply them in our relations with other states in such a way as to encourage or induce them into implementing internationally agreed standards of human rights."

Members of the opposition, however, were unrelenting. Making specific mention of Indonesia in the

final stages of the debate, Ms. Lynn Hunter of the NDP party, said: "I urge the government not to repeat the sorry history of empty rhetoric but to put real substance behind the Prime Minister's [Harare] statement ..."

The incident in Dili, East Timor, occurred twenty-one days later, on November 12, 1992. It was the first concrete test of the Government's new linkage policy.

The Canadian Government's Reaction to the Dili Incident

The East Timor question had been repeatedly discussed during Canadian-Indonesian official dialogues for a decade. Canadian Foreign Ministers, Joe Clark predominant among them, had voiced the government's concern respecting the situation in East Timor to his Indonesian counterparts on many occasions, most often during bilateral discussions during ASEAN Foreign Minister's Meeting, which Canada attended as a "dialogue partner". The government, while not subscribing to the way in which East Timor was incorporated into Indonesia nor ignoring allegations of human rights violations, came to accept Indonesian control over the area, while maintaining a close watch on developments. As Hon. Barbara McDougall said in the House of Commons on September 18, 1991, before the Dili incident:⁷

"Canada considers that Indonesian sovereignty over East Timor is a fact, recognizing that there has never been any history of independence or self-determination or self-government in that territory. We do not condone the manner of incorporation and we deplore and condemn the loss of life that occurred ..."

Against the backdrop of the Prime Minister's Commonwealth speech, and the querulous press and political reaction to it,

⁷House of Commons, *Debates*, 18 September 1991.

the government's reaction to the incident in Dili was dramatic and more openly critical of Indonesia than ever before. At the APEC meeting in Seoul, Mrs. McDougall met with Ali Alatas "hours after news of the killings" to "express the outrage of the Canadian people", which she repeated at a press conference the next day, and in a press release on November 15.⁸ However, no decision on immediate action to reduce or suspend aid had been taken: Mrs. McDougall explained on November 18 in the House that⁹

"... although I have asked for an examination of our foreign aid to Indonesia, I should point out that it was \$46 million and it is very much grassroots aid. It goes to environmental projects, water supply, human resources, women and development."

Not wholly accurately, she added, "It does not go through the government for the most part," possibly intending to say that the assistance went not into the government of Indonesia's general revenue to dispose of, but directly to the target groups, whether government - related or not.

At that point in time, the Prime Minister was at the Francophonie Summit in Paris, repeating his initiative to link aid more closely with human rights. The *Globe and Mail* reported at the Summit's close on November 21¹⁰ that the initiative received a more sympathetic hearing than in Harare, but that a resolution adopted "leaving it to each nation

to determine the roads that will appropriately strengthen its democratic institutions" "fell short of Canada's position."

On the Prime Minister's return, consideration was given to a concrete response to the Dili incident, one that was consistent with the Harare and Paris initiatives. The Dili incident had caught the attention of the media: "Canada all but silent on reign of terror" said the *Calgary Herald*; "East Timor acid test of Ottawa's resolve", said the *Winnipeg Free Press*. Three weeks passed, an indication, given the pressure building up from the media and the political opposition, of the intensity of the debate within the government over the most appropriate action to take.

The formal Canadian response to the incident was announced on December 9, 1991, and was a cautious one.¹¹ Consideration of three new projects "that provide direct assistance to the government of Indonesia" was put on hold. But the government defended continuing development assistance to Indonesia, focusing as it did on human resource development and environmental cooperation; "The projects that are already underway will be allowed to continue." The December 9 press release went on:

"Mrs. McDougall indicated that the work of the [Indonesian Government] Commission of Inquiry [into the incident] and the actions of the Indonesian Government will be taken into account during the government's upcoming aid allocations review. In this review ... the government will continue to give increased emphasis to human rights concerns around the world."

At this writing, the matter, essentially, rests there.

⁸Statement by John Tennant, Acting Assistant Deputy Minister, Asia and Pacific Branch, Department of External Affairs, to the House of Commons Subcommittee on Development and Human Rights, 9 December 1991.

⁹House of Commons, *Debates*, 18 September 1991, 4912.

¹⁰"Francophonie Moves Gingerly on Human Rights," *Globe and Mail* A3 (22 November 1991).

¹¹Department of External Affairs, *Press Release* 280, 9 December 1991.

Stalemate

During two Indonesian ministerial visits to Canada in the months since December, of Ali Alatas in February, and of Radius Prawiro in May, government ministers repeated the government's concern over East Timor but, apparently, undertook to keep the limited suspension of new aid under review, and to move towards normalisation "soon", once circumstances warranted. A number of "benchmark" events were established and passed by. *First*, (December 9) the government awaited the preliminary report of the Commission of Inquiry established by President Soeharto immediately after the Dili incident and the actions taken on its recommendations by the Indonesian Government.¹² *Later*, Ottawa awaited the full report, as well as the report of the UN Human Rights representative after he visited East Timor.¹³

On several occasions, however, just as the government seemed to be moving toward a reconsideration of the limited aid suspension, the Canadian press contained another negative story on Indonesia that appeared to have had the effect of precluding an early return by Ottawa to normal relations -- stories repeating the version of East Timor's history that many have come to accept as fact, on trials of East Timorese demonstrators and the magnitude of sentences handed down, on comments by individual military figures, or on Indonesia's possible response to the March sailing of the Portugese-sponsored "peace ship" into Indonesian waters.¹⁴

¹²Ibid.

¹³House of Commons, *Debates*, 6 February 1992, 6498.

¹⁴See, for example, Linda Hossie, "Will Ottawa Put Its Money Where Its Mouth Is", *Globe and Mail* (May, 1992).

Human rights and lobby groups remained active through the spring, including Amnesty International and Asia Watch, and the less familiar (to Canadians) TAPOL and the East Timor Alert Network. Many of those who might have supported the role of Canadian aid to Indonesia in helping improve the development of human rights, or been capable of explaining Indonesia's complex political and social characteristics, seem to have been intimidated by a fear that they would be seen as excusing human rights abuses, and the public stage was left to Indonesia's vocal critics.

On July 16 and 17, the consortium of development assistance donors to Indonesia (the Consultative Group on Indonesia, or CGI) held its annual meeting in Paris, under the chair of the World Bank. At this meeting, Canada, along with other donors, would be expected to announce formally its pledge of assistance for the coming year. While the limited suspension of new projects remained in effect, Canada's pledge had already been discussed at the ministerial level in Jakarta and senior Indonesian officials were already aware of the configurations of the proposed new annual programme. Within hours of the opening of the meeting, Ottawa pulled back. The Canadian delegation informed the Indonesian ministers present that the Canadians would not participate as full members of the meeting but would only sit as observers to the meeting and would make no statement, and that no formal, public pledge of assistance for the coming year would be made. Indonesian sources understood that Canadian aid will go ahead on a case-by-case basis and that the Canadian position will be reviewed once the human rights situation in Indonesia improves.

Two events immediately preceding the meeting, which were clearly carefully timed, may have led to this sudden decision. *First*, on July 13, Amnesty International issued a report entitled "Indonesia/East Timor: The Suppression of Dissent", which pulled together in one document all material that had been issued by Amnesty during the past several months.¹⁵ *Second*, fourteen Canadian parliamentarians, most of them from the New Democratic Party, formed a group called "Parliamentarians for East Timor" and issued on July 15 a press release calling on the government to "take a leading role in promoting its policy of linking foreign aid, with human rights by pressing for a suspension of aid at the CGI".¹⁶

Official Indonesian circles in Jakarta, including (according to Indonesian sources) President Soeharto, reacted with surprise and dismay. They saw this as an inexplicable hardening of the Canadian position, which was all the more unexpected and "humiliating" (as one senior official reportedly put it) given their reading of indications from Ottawa (for example, during the visit of Radius Prawiro) that the government would resolve the issue before the July CGI meeting. While there is yet no sign of any dramatic reaction on the part of the Indonesian Government, there is increasing evidence that Canadian ventures will encounter mounting hostility so long as the matter remains unresolved.

The government's quandry is real. How can the complex case for furthering human rights concerns by continuing aid to and relations with Indonesia be effectively reconciled with the Prime Minister's policy on linking

aid and human rights in the face of a hostile press and political opposition? Indonesia is not well-known in Canada. Prior to the Dili incident, it received infrequent attention in the media. How can sophisticated points related to political and social dynamics within Indonesia, such as the uniqueness -- in the Indonesian context -- of the Indonesian Commission of Inquiry into the Dili incident be explained in a country where commissions of inquiry are commonplace? Human rights issues matter to Canadians; at home, concern over native Canadians' rights, the administration of justice, and the administration of refugee policy demonstrates this. How can Canadians -- particularly those who influence policy through the press -- be convinced that a more deliberate approach to the issue of linking aid to human rights, such as that put forward in the government's 1987 reply to the Winegard report, will sufficiently meet their deeply felt and legitimate concern for human rights?

In the meantime, while only the limited suspension of new projects remains formally in effect, no decisions appear to be being made on any new or renewed projects in Indonesia, pending, perhaps, the review of the program foreseen by Mrs. McDougall in her December 9, 1991, statement and apparently alluded to in Paris.

An Indonesian Perspective

Indonesians no less concerned than Canadians about human rights, in their own country and elsewhere, were deeply disappointed at Canada's position. They point to the fact that Indonesian society and the Indonesia polity are not monolithic, but contain active and influential reformist ele-

¹⁵Amnesty International, *Indonesia/East Timor: The Suppression of Dissent* (London, July 1992).

¹⁶Press Release, 15 July 1992.

ments, even within the armed forces. They refer to the progress in human rights and political openness that has been made during their country's turbulent history -- a more open political process, the increasingly influential role of the legislative branch, incorporation of improved individual rights guarantees in the penal code.

They also point to the contribution that international development assistance has made to the process of change in Indonesia. With respect to Canada's aid programme, they argue that aid in education, rural development, the environment, the role of women, and good governance is highly supportive of this change, and that denial of this assistance will work against progress in individual and community rights.

This disappointment is rooted in an expectation that the close relationship between Indonesians and Canadians should have equipped Canada to appreciate these points, to understand the complexities of Indonesian political life, and to use the position that this relationship has given Canadians in Indonesia in a productive way.

Very conscious of their struggle for independence and democracy in the past, and of the many challenges that continue to lie ahead, their national pride surfaces. They are insulted by the scoldings of countries with their own human rights problems.

They understand that the situation in East Timor remains volatile and that human rights issues there and elsewhere in the country will continue to attract international attention to the detriment of Indonesia. But they point to a number of developments not well appreciated in Canada. The Commission of Inquiry established by President Soeharto, and the Military Council later

established by the armed forces were unprecedented in Indonesian history. The publication of the Commission's report and of the findings of the Military Council¹⁷ were, in the context of Indonesian history and politics, surprising and dramatic. In a culture where one's position is sometimes seen to insulate the office-holder from accountability, the disciplinary action taken against senior military officers was, to many, quite unexpected. Given the role of the armed forces in Indonesian history, open governmental condemnation of their behaviour and discipline represented a political watershed.

Towards Progress in Human Rights

The debate on human rights in Indonesia is entering a new phase. The issue of human rights no longer relates only to events within Indonesia. As Chairman of the Non-Aligned Movement, Indonesia has raised the level of debate to that of the meaning of human rights itself.

The developing world's concept of human rights differs in important respects from the Euro-American concept. It focuses on the rights of the community, which, where necessary are given predominance over the rights of those who would put themselves outside the community. Inherent in the concept is the belief that individual rights can only be realised once broader rights are safely in place.

¹⁷Advance report of the National Commission of Inquiry into the 12 November 1991 Incident in Dili, Jakarta, 26 December 1991; Statement by the Army Chief of Staff on the Findings of the Military Honour Council and Actions Taken, Jakarta, 27 February 1992.

This concept found expression in the United Nations 1986 Declaration on the Right to Development,¹⁸ subscribed to by all the developing and socialist world at the time, but by only some developed countries. Canada, however, was among those voted in favour of the resolution.

Article 1 of the Declaration reads:

"The right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to and enjoy economic, social, cultural and political development, in which all human rights and fundamental freedoms can be fully realized."

The developing world's concept of fundamental rights found expression again at the Tenth Conference of Heads of State or Governments of Non-Aligned Countries, held in Jakarta on September 1-6 last year.¹⁹ At the Conference, the Non-Aligned Movement sought for itself a new role in the post Cold War world. It seeks now to speak for the South.

Paragraph 18 of the Jakarta Declaration, subscribed to by the representatives of all 106 countries present, reads:

"We affirm that basic human rights and fundamental freedoms are of universal validity. We welcome the growing trend towards democracy and commit ourselves to cooperate in the protection of human rights. We believe that economic and social progress facilitate the achievement of those objectives. No country, however, should use its power to dictate its

concept of democracy and human rights or to impose conditionalities on others. In the promotion and the protection of these rights and freedoms, we emphasize the inter-relatedness of the various categories, call for a balanced relationship between individual and community rights, uphold the competence and responsibility of national governments in their implementation. The Non-Aligned countries therefore shall coordinate their positions and actively participate in the preparatory work of the Second World Conference on Human Rights in June 1993, in order to ensure that the Conference addresses all aspects of human rights on the basis of universality, indivisibility, impartiality and non-selectivity."

The concept of linking aid with human rights conditions is now rejected not only by Indonesia, but by the whole of the developing world.

The question arises: do Canada's interests, and the prospects of Canada contributing towards real progress in human rights, lie in continued confrontation with Indonesia over East Timor? Or can they be more effectively realised if Canada, working with Indonesia as leader and spokesman of the renewed Non-Aligned Movement, were to devote its energies to the development of a universally accepted set of concepts on human rights and to an increased commitment to them by all members of the international community. The Second World Conference on Human Rights in June 1993 and its preparatory conferences provide Canada with this opportunity.

If the Canadian Government adopted this mission, it could revitalise Canada's role as a link between North and South and, at the same time, realise its goal of enhancing human rights, not only in Indonesia, but in the world at large.

¹⁸United Nations, *Press Release* GA/7463 (12 January 1987).

¹⁹Tenth Conference of Heads of State or Governments of Non-Aligned Countries, Jakarta, Doc. NAC10/Doc. 12, 6 September 1992.

Public Enterprise in Indonesia: Restructuring or Privatisation?

I Ketut T. Mardjana

Why does the Indonesian government prefer to use the term restructuring rather than privatisation? The historical background, national philosophy, and the state political-economy are relevant factors which will be considered. The 'Old Order' Government of Indonesia (1945-1966) followed a socialist system. It favoured state ownership, and the private enterprise sector was therefore given very little or no room in the economy. Private ownership was assumed to cause oppression of the Indonesian people. Accordingly, the word 'privatisation' was taboo, and has remained sensitive under the 'New Order' Government since 1966, even though the new government favours a democratic economy. Until recently government control was the dominant element in economic development. In the last few years, however the 'New Order' Government has urged a structural adjustment of the economy, including reforms in public enterprise. This paper argues that although there are still many obstacles to progress, there is a tendency for the government to reduce its controls over the economy, accepting market forces and competition.

Introduction

PRIVATISATION and government control are distinct concepts in public administration which have very different, and perhaps controversial, philosophies and implications. Government control, which has been the policy choice of many

countries for many years in helping to achieve a high rate of economic growth is now reviewed with some greater understanding of the limitations of government intervention. It is now widely assumed that strict government control stifles initiative and is too costly.

Privatisation, on the other hand, is perceived as likely to increase efficiency for two

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reasons. First, from a micro or enterprise perspective, it is assumed that privatisation will force companies to be more commercially oriented, will foster greater competition, and will encourage individual initiative on the basis of entrepreneurship. This is the prerequisite for enhancing efficiency. A monopolistic company, either private or state, tends to be inefficient because it lacks the pressures of competition.

The second way in which privatisation can improve efficiency is from the viewpoint of government and public enterprise inter-linkage. Market forces, which privatisation basically relies on, would influence the government to free state enterprises from political interference and bureaucratic hindrance. This, in turn, could result in a reduction of costs at the enterprise level due to the breakdown of hierarchical and bureaucratic process. Similarly, at the government level, increased efficiency and decreasing national budget spending would follow from the reduction in the number and size of public enterprises. It may stop the drain on the government budget that stems from inefficiency in public enterprises.

Hence, in brief, privatisation can address issues of the positive impact of market forces and competition, and the negative consequence of political meddling, on the behaviour and performance of the enterprise, and the economy as a whole. Pelkmans and Wagner suggest two conditions that must be considered when aiming to improve companies' efficiency:

First, government control and interference have to be abolished, and secondly, the privatised companies must be exposed to increased competition (Pelkmans & Wagner 1990, 19).

This belief has been embraced in Indonesia, Ali Wardhana, the former Indonesian Minister of Finance and ex Minister Coordinator of Economy, Finance, and Industry, says:

Protection and government controls, which had been the chosen policy instruments for many years, are inimical to this competitive domestic market; they have created the 'high-cost' economy that the country is now trying to escape (Wardhana 1989, 208).

While there is general consensus about the ability of privatisation to remove political control and to encourage competition, there is scope for confusion in the broad and differing terms for various methods of privatisation used in a range of countries. Indonesian public enterprise 'restructuring' may be mixed up with 'privatisation'.

Meaning of Restructuring and Privatisation

There is no clear cut official definition of restructuring. The Indonesian government undertook a restructuring policy in 1960 when the previous forms of public enterprise were reorganised into one form, known as PN (*Perusahaan Negara*). In 1969, in turn, the PN was divided into three forms of public enterprise, the *Perjan*, *Perum* and the *Persero*. In this sense, restructuring took the form of re-arranging or re-organising the form of public enterprises. During the last decade the government has been seeking to restructure the economy by opening up business activities to market control rather than government intervention, or more specifically, by shifting the basis of the economy from oil to non-oil exports. Dhakidae, Bertens and Parera (1992, 393) argue that re-

structuring covers two fundamental items: (i) object, i.e. the existing structure; and (ii) activities, i.e. a process of adjustment. Restructuring, accordingly, is an effort to rearrange or to adjust the existing structure, organisation or formation.

In the recent Indonesian public enterprise reforms, restructuring policy consisted of a set of strategies. It covered reorganisation of the state enterprises, divestiture or selling of government assets, and the transfer of private sector management concepts into public enterprise management. The result is, it is claimed in this paper, that distinction between restructuring and privatisation become blurred.

The word 'privatisation' itself has been used with many different meanings. One view of privatisation is that it is a transfer of ownership from the public to the private sector. Others claim that privatisation does not necessitate the sale of government assets, but rather accommodates private management into the public sector. While the first interpretation may be somewhat narrow, and the second, broader meaning, reflects the need for structural adjustment not only internally within companies but also within the government, for example, through de-regulation and de-bureaucratisation measures, which can to a great extent influence the nature of public companies. Littlechild includes three elements in privatisation:

changes in organisational structure of the industry (mainly by splitting up the industry), allowing the entry of new competition, and transferring organisations wholly or partially to private ownership (Littlechild 1983, 12).

Using a wider meaning, Wiltshire suggests that privatisation should cover:

- The privatisation of financing a service that continues to be produced by the public sector (the old user-pays argument where charges rather than taxes should be used to finance public sectors).
- The privatisation of the production of a service that continues to be financed by the public sector (usually out of taxation), as in contracting out, education vouchers.
- Denationalisation and load-shedding, meaning respectively selling of public enterprises and transfer of state functions to the private sector.
- Liberalisation, meaning relaxation of any statutory monopolies or licensing arrangements that prevent private sector firms from entering markets previously exclusively supplied by the public sector (Wiltshire 1987, 15).

From the above definition it appears that privatisation is a complex concept, which may embrace many different policies and measures. The government may use one or a combination of methods, such as privatisation in terms of: ownership, finance, production, management, and business environments. To simplify discussion, it seems that privatisation of state-owned enterprises may take place in three basic ways. *First*, by transferring government ownership (fully or partially) to the private sector. In this case, there is a shift of power from state control to private control. *Second*, by deregulation of economies. This is concerned with the relaxation of regulations and statutory monopoly power. *Third*, by privatisation in terms of liberalisation, which refers to relaxing the restraints of newcomers in the economy by allowing private entry into the business of public enterprises and allowing private sector yardsticks to be utilised in the management of public sectors.

Policy and Practice of Privatisation in Indonesia

Privatisation of public enterprises has been occurring in Indonesia for some years. For example, the government has approved production/profit sharing between Pertamina (the state oil company) and foreign companies, user pays charges on toll roads that are conducted by PT Jasa Marga (the state road enterprise) and a private company has been allowed to build toll roads as well as to operate them jointly with PT Jasa Marga. There are also joint operations involving PT Perikanan Samudra Besar (the state fishery company) and PT Bali Raya (a private company).

In recent years, government policy on public enterprise management has been made clearer by Presidential Instruction No. 5/1988 of 26 October 1988. This Instruction, which was directed to sixteen ministers, contains: (i) guidelines on how to improve the level of efficiency and productivity in public enterprises; and (ii) a delegation of power for undertaking further actions from the President to the Ministry of Finance. Following this, the Ministry of Finance issued two decrees, one about public enterprise restructuring and another about simplification of controls. Reform in the public enterprise sector (or privatisation of public enterprise management or ownership) orienting it towards a more competitive market and more effective control has thus been legitimised. This policy is still in the process of implementation.

It is important to analyse the process of policy reform itself, and the obstacles to reform, which may be involved. The ideological change in public enterprise management in Indonesia, which entails the easing

off of government involvement and leaving public enterprise as more of a corporate than a public institution, may emanate from a range of domestic and foreign factors. Internal forces generally relate to national budget difficulties and shortages of funds for public enterprises, in combination with inefficiency in management and the influence of the press. External pressures may come from multinational institutions or bilateral agencies, mainly Western development agencies, and also from the global ideological changes -- such as reform in East-Europe/USSR, Vietnam, India and Latin America.

Yet, admitting this strong ideological influence, it must be questioned how the privatisation has been able to penetrate the long-standing government policy of direct control of the economy. A trade-off between economic and social objectives might mean that the implementation of public enterprise reform in Indonesia would not be as smooth as expected or planned. Political and technical obstacles, which derive from history and ideology, constrain reform.

The discussion in this paper will cover broadly the following topics. *First*, an overview of the historical background of public enterprise in Indonesia, will be given, including the policy decisions concerning public enterprise during the 'Old Order' and 'New Order' Government. This will raise the question of why the government should implement strong control over public enterprises. *Second*, it deals with privatisation policy issues. It addresses the arguments on privatisation, on internal and external pressures and on the issues that are associated with public debate. *Third*, it is concerned with the process and implementation of the policy reforms, and the question of why the government prefers to use the term 'restruc-

turing' rather than 'privatisation'. A major feature of policy reform in public enterprises is, in fact, privatisation, restructuring is the preferred term. This may partly be due to social and political problems linked to the national ideology and *non-pri* (= *non-pribumi*, non-indigenous people) issues. This section also deals with financial evaluation preceding and after the implementation of restructuring policy, critics of the method of financial measurement used, and some technical as well as political obstacles associated with its implementation.

Indonesian Public Enterprise: An Overview

Public ownership in Indonesia is related to the national ideology. Article 33 (2) of the 1945 Constitution states that the government should 'control' the branches of production that are considered vital to the state and which affect most of the people. A longstanding major debate has been concerned with whether 'control' in this context means 'belonging to' or 'supervised by' the government. There is likely to be a tendency to shift from the former interpretation to the latter. This shift will affect government policy on state enterprises.

Public Enterprise in the 'Old Order' Government

At the time of independence, Indonesia's economy was characterised by an imbalance in the allocation of resources amongst the various sectors -- a situation inherited from the Dutch. The Soekarno administration, now known as the 'Old Order' Government, was inspired by the socialist notion that cen-

tral economic planning was the best policy direction. The government was involved in almost all sectors of the economy, most of which were centrally regulated. 'Control' tended to mean 'belonging to', and public enterprises became prominent government instruments in achieving the national objective of balanced economic development. Associated with the spirit of independence, nationalism had been adopted as government policy. The state favoured the public enterprise model. National resources were to be retained and controlled by the state. In this case, public enterprises became political as well as economic tools of the government. In order to achieve the objective, the government of Indonesia launched its so-called nationalisation policy.

Nationalisation

Apart from inheriting enterprises from the Dutch Government (ICW and IBW enterprises) and establishing new state enterprises (such as Bank Negara Indonesia, Bank Industri Negara, Pelni, Damri, PT Natour, PT Perusahaan Tinta Cetak "Tjemani", etc.), during the late 1950s and the early 1960s, the Indonesian government also nationalised foreign companies. The nationalisation policy emerged because of both Dutch refusal to transfer the sovereignty of West Irian (Western New Guinea) to the Republic of Indonesia and the political confrontation with Malaysia. Dutch,¹ and British and American companies,² were na-

¹See Mackie 1967, 61; Pangestu and Habir 1989, 226; Soeripto 1975, 49; and Warouw n.d., 15.

²See Castles 1967, 76; Pangestu and Habir 1989, 226-227; Sadli 1988, 209; Wibisono 1988, 5; Warouw n.d., 18; and Zahri 1969, 167-158.

tionalised. Consequently, there were around 800 public enterprises that belonged to the government at that time. These operated in all sectors of the economy (such as agriculture and plantations, manufacturing, mining, trading, banking and insurance, communications, gas and electricity, and construction) under various regulations and laws (Heritage Dutch regulations - ICW and IBW, business Law, Special Acts and Government Regulations).

Guided Economy

Parallel with the policy of guided democracy, which was inaugurated on 17 August 1959, the 'Old Order' Government also implemented the 'Guided Economy', *Ekonomi Terpimpin* (see Tan 1967, 29). Public enterprise activities were to be synchronised with, and reserved for, the Guided Economic policy. Correspondingly, reform in public enterprise administration was undertaken through five definable strategies.

First, all public enterprises, under Act No. 19/1960, were reorganised in one form, that was *Perusahaan Negara* - PN (literally it means state enterprise). This was in order to create uniformity amongst public enterprises. By 1965, the total number of public enterprises was reduced to become 223 (Wirjasuputra & Rieffel 1972, 4-5). *Second*, public enterprises were operated under the direct supervision of the relevant technical ministries. Since then, public enterprises have been closely linked with their respective ministerial departments, so that their activities are more easily able to be adjusted to ministerial department programs. *Third*, under Act No. 19/1960, private (foreign and domestic) participation was made impossi-

ble, since the capital of PN could not be divided into shares. This was necessary: (i) in order to gain political support under the guise of the protection of society from oppression by private participation; and (ii) in order to protect the power of control over public enterprises which were to remain fully in government hands. *Fourth*, the government posted military officers and civil servants to replace foreign managers in control of public enterprises. This policy corresponded with the government's intention to bring enterprise operations into line with national interests, and implies that from that time bureaucrats and military officers began to manage public enterprises. *Finally*, the government was directly involved in management through the formation of *Biro Pimpinan Umum* -- the General Management Boards in each ministerial department. This created a dualism of management within public enterprise: the General Management Boards which were responsible for the condition of public enterprises under a ministerial department, were also responsible for the management of public enterprises, which were under the authority and the responsibility of the Boards of Directors (Habir 1990, 93).

In addition, linked with the Guided Economy, in April 1964 President Soekarno announced a self-reliance economic policy with the slogan *Berdiri di Atas Kaki Sendiri* (*Berdikari*) which means literally stand on our own feet. This was intended to "free the economy from all foreign intervention. Any kind of overseas investment was now considered unsuitable and inappropriate for the new national economic structure" (Tan 1967, 40).

These factors proved that the government was extremely serious in its efforts to

control public enterprise management. Strong control from the government in collaboration with the voice of social protection meant industries were continually open to political and bureaucratic interference. Social and commercial objectives became blurred, and were sometimes detrimental to each other. The performance of public enterprises was generally disappointing. Criticisms were continually voiced about their low returns on investment; their record prices and productivities; and about the low level of customer satisfaction that they provided.

Restructure

The shift from the 'Old Order' to the 'New Order' Government brought about changes in policy direction. When Presiden Soeharto came to power in 1966, the starting point of economic policy was that there was to be no bureaucratic interference in the economy and that a democratic economic system would begin. The review of government intervention, protection and regulation has led to an attempt to find a larger role for market mechanisms. Implementation of economic reforms, including the public enterprise sector, took place. Private investment (both foreign and domestic) was encouraged, while government undertook policies of debureaucratisation and decontrol.

Reform in the public enterprise sector, under Act No. 9/1969 dated 1st August 1969, was characterised by restructuring of PNs into three groups, the *Perjan*, *Perum* and the *Persero*, with the following feature:

- *Perusahaan Jawatan (Perjan)*, or departmental agency. These operate in the area of public utilities, including community

service obligations. The PNs that were originally regulated by the IBW were converted to *Perjans*. Each was attached to a ministerial department and headed and staffed by civil servants. The *Perjans'* costs of operation and the annual profits/losses obtained were part of the national budget. The *Perjans* included the railway corporation, which was attached to the Ministry of Transportation, and the pawn shop, which was attached to the Ministry of Finance. (Now, the railways and the pawnshops are no longer *Perjan*, having changed status to *Peruin* in 1990).

- *Perusahaan Perseroan (Persero)*, government/state company. These are a commercial corporations. The *Persero* operate to generate profits and carry out activities in areas outside those in which the *Perjan* and *Perum* engage, which could bring about development of the private sector and cooperatives. In structure, they are limited companies whose shares are wholly or partly government owned. Those enterprises that originally were established as limited companies subject to business law which subsequently became PNs under Act No. 19/1960, under Act No. 9/1969 again reverted to the limited company form. In consequence, they are subject to commercial law. The management of the *Persero* lies in the hands of a Board of Directors, and in the execution of its function the Board is under the control of the Supervisory Board. In essence, there are, under the new legislation, the *Persero* which are considered akin to private enterprise.
- *Perusahaan Umum (Perum)*, public corporation. In this form of public enterprise, the PNs that do not fulfill the conditions required for conversion to *Perjan* and *Per-*

sero became *Perums* (public corporations) and continue to be regulated by Act No. 19/1960. The *Perums*' capital is wholly government owned and not distributed into shares. Operations are supervised by a technical minister and *Perums*' employees are not regarded as civil servants. They are also more autonomous than the *Perjan*. The *Perums*' activities are mixed business, which generate income while providing public services. Some examples of *Perum* are the state bus transportation company, railway company, air and sea port companies, state housing company, electricity and gas companies.

It seems that this new division of activities shows a clear dividing line between public enterprises which have social functions, commercial functions or are mixed between the two. Also, it should be apparent that the level of control over *Perjan* would be tighter than *Perum*, and that the *Persero* will generally be treated as private enterprise. Stated differently, the more strategic their activities are to the nation the more intense the government control and the more commercial their business, the more autonomy the government should deliver. These differences are indicated by the legal status of the enterprise.

The policy of restructuring public enterprise, however, experienced ebb and flow in its implementation. The increase in government revenue due to high oil prices from 1973-1982 had the effect of restoring the government's role in controlling the economy. It appears unlikely that there was any difference in government attitude to the three groups of public enterprise. The *Persero*, which in terms of legal status should be profit-making and therefore enjoy discretion in policy decision-making, found that in

practice, socio-political considerations could intervene. Conflict between legal principles and the socio-political practices resulted in the latter prevailing. The targeting of some *Perseros*, accordingly, had more to do with the government's national development and community services imperatives than with commercial goals.

During this time, budget allocations were continually increased because of the rise of national income from oil. The role of technical ministry were correspondingly increased. Development in various sectors was the focus of government attention, and was encouraged through the ministerial departments having responsibility in their respective sectors. Such a situation caused public enterprises to be increasingly important as government tools in the implementation of protectionist policies and intervention in the economy. Public enterprises were widely used as attempt to speed up national development, and investment in the public enterprises increased through expansion, replacement, or new establishments.

Total investment in public enterprises increased from US\$42 billion in 1979 to US\$75 billion in 1982. There was a decrease to US\$70 billion in 1983, and a sharp decrease to US\$54 billion in 1986. This was a result of the slump in world oil prices that began in 1982 and the sharp fall in 1986. This brought about Indonesia's economic crisis. The government experienced a shortage of funds, and so undertook various austerity measures in its budget spending, one of which was a reduction in public enterprise capital allocation. This generated considerable controversy. Debates which stemmed from suspicion about inefficiencies of public enterprise management also extended to the issue of privatisation.

Privatisation

There is a world-wide ideological swing away from government intervention in the economy in favour of market forces and competition. The rationale behind this swing includes reference to the interaction of competition, efficiency, and profit. The combination of the competitive market and the need for profits, it is believed, would motivate or pressure managers and individuals in companies to achieve optimal efficiency, and, in turn, pressure the government to reduce or to quit its role in the day-to-day management of public enterprises.

There are three generally stated facets of efficiency: allocative efficiency, productive efficiency, and X-efficiency. Allocative efficiency deals with the fulfillment of consumers' needs for goods and services at prices which reflect the costs of provision; productive efficiency refers to minimising inputs to achieve a given output; and X-efficiency is concerned with the necessity for incentives, motivation, or pressures in order to influence managers and individuals in organisations to become more productive.

Why should there be a transfer of ownership from the public sector to the private sector? Unlike a private enterprise, public firms, in general, lacks the profit motive and competition, so that they inherently contain elements of S-efficiency (Gillis 1977, 13; James 1988, 5-6). Public enterprises, particularly those holding monopolistic power, operate in an environment of less pressure (or even no pressure) from competition. This means that there is less effort by managers and employees to minimise costs to bring about productive efficiency, and thus, goods and services provided by those public enterprises do not reflect the cost of provision.

Nevertheless, privatisation which involves merely selling public assets to the private sector without real exposure to competitive market forces may not result in the desired efficiency. And, if privatisation by transferring assets from public enterprises to private enterprises is not the best solution, and optimal efficiency is desired, the policy choice may be directed at 'privatisation of management'. As a rule, the government should not interfere in the internal management of public enterprises. Advantages (such as subsidies, low interest rate facilities, and monopoly) and disadvantages (such as government assignment of social goals) from the government to public enterprises should be omitted. Rather, it should let public enterprises compete neutrally and earn profits. Here, privatisation may be aimed at preventing bureaucrats and politicians from intervening in the affairs of enterprises which are 'going concerns' by letting managers manage.

Accordingly, the concept of privatisation can be viewed within two contextual frameworks: both macro and micro perspectives (Gouri, Sankar, Reddy and Sham 1989, 21-24). Macro-privatisation takes into account the new dividing lines of the state and the market. Divestiture of government ownership and liberalisation of the economy is the manifestation of this proposition. The role of the government shifts from *producer state* to *regulator state*, and ultimately to *facilitator state*. Following this paradigm, the state is not necessary for the provision of goods or services directly to the society, nor to bind companies with excessive regulations which may make companies inflexible. Rather the government should direct its policy consideration towards facilitating measures that would promote companies' perfor-

mance and the country's economic growth.

Micro-privatisation is concerned with dynamic modern management at the enterprise level. It aims at the better performance of, and fund generation from, public enterprises, through relinquishing power to managers and judging managers' achievements against appropriate performance measurement. Thus, both macro- and micro-privatisation are aimed at introducing competition, providing greater managerial autonomy and stimulating entrepreneurial creativeness in order to achieve efficiency at the enterprise level, and in the economy as a whole.

Pressure for Privatisation

Pressure for privatisation of public enterprises may come from internal and external sources. Internal pressure may be more apparent since it is more easily accessed by the general public and the press. It is often put forward as the only form of pressure. But external pressure, which mainly comes from multilateral or bilateral agencies, might be highly influential. This might be because most developing countries, like Indonesia, are dependent on financial aid or loans from developed countries in order to carry out development more rapidly.

Internal Pressure

Internal pressure for a policy change towards privatisation generally derives from government financial difficulties and shortage of funds for public enterprises, in combination with inefficiencies in the public sector. The fall in oil prices resulted in budget austerity, and the need for the Indonesian

government to look for a better system.

Achieving efficiency and reducing budgetary transfers from national funds to public enterprises have been the government policy choices. A review of public enterprise performance and management was considered necessary. The poor financial performance of public enterprises meant that there was a continuing flow of government funds to state-owned enterprises. This, in turn, had adverse effects on fiscal policy (national budget) and monetary policy (such as: government borrowing, crowding-out effect and balance of payment problems). The increase in public borrowing, in turn, placed the country under greater influence of the international lending agencies.

International Influence

External pressures on developing countries come primarily from multinational institutions or bilateral agencies, such as the International Monetary Fund -- IMF, the World Bank (Berg 1987, 27), and the United States Agency for International Development -- USAID (McPherson 1987, 19-20). This type of pressure often involves transference of ideology, which can be encouraged by internal pressure (shortage of government funds). The ideology of free market competition is believed to be better in the hands of private sector enterprises than through the operation of public enterprises. Babai argues (in a similar view to Berg):

Of the large cast of actors that have provided the external stimulus toward privatisation in developing countries, two international organizations stand out: the World Bank and the International Monetary Fund (IMF). In recent years, the Bank and the Fund have issued a stream of reports that assign much of the blame for the backwardness and instability in

developing economies to excessive government intervention. ... Running through such reports is a common theme: the state needs to place greater reliance on the market as the essential mechanism of allocation and distribution and, in the process, must make more room for the private sector (Babai 1988, 254).

The mission of the USAID is clear. As the A.I.D.'s policy determination states:

Privatization is a key intervention in support of A.I.D.'s [Agency for International Development's] overriding goal of stimulating economic efficiency. This policy determination sets forth privatization as an important Mission activity for enhancing efficiency in sectors and/or markets of concern to A.I.D. and seeks to encourage innovation, recognizing that successful innovation is often the result of creative risk taking (USAID 1991, 1).

Therefore, Western development agencies, at least those from capitalist countries such as the USA and Great Britain, are strongly influential in promoting an ideological switch from the state control often associated with extensive public enterprises, to an ideology of market orientation that usually flourishes in the private sector. Pirie & Young argue, "privatisation should assume a much more important place in the thinking of development agencies" (n.d., 1). The need for financial aid greatly affects the recipient countries which are then bound by conditional requirements of donor over the countries' economic policies. One of these requirements may be to boost programs of privatisation.

Indonesia receives substantial loans and grant from these international institutions in pursuing development. Therefore, this type of policy pressure will be very likely in Indonesia. The USAID, for example, places experts in Indonesia as government advisers (see *The Commerce Business Daily*, 27 November 1990) and gives grants in order to help Indonesia speed its privatisation pro-

gram.

This has been realised through the establishment of a Financial Market Project, consisting of two components: financial markets and privatisation of state-owned enterprises. These two components have been recognised as having a close relationship. Dealing with both the capital markets and the state enterprises jointly may bring about increased success for the privatisation program.

Another Western institution is HIID (Harvard Institute for International Development). It provides technical assistance in formulating new public enterprise performance evaluation and criteria on the basis of case-by-case assessment for each type of public enterprise. Performance criteria are an important part in the privatisation program especially in relation to privatisation of management, since criteria agreed upon in advance (between the Ministry of Finance, responsible technical minister and the public enterprise) will avoid different interpretations of public enterprise performance. This, in turn, will empower managers with greater autonomy, meaning that the government would not necessarily be involved in daily operations, but would rather concentrate on 'control by result'. The plan of development of new performance criteria is also likely to be the government response to public critiques of criteria that established in 1989 (see the following section on 'financial implication of the reform').

The combination of these two types of pressure (internal and external) may well move the Indonesian economy, previously a stronghold of state intervention, towards competitive market. However, this does not mean that the idea of privatisation is smoothly accepted by stakeholders in the

country. Opinions favouring and opposing the concept remain strongly held. The historical background, the national philosophy, and differing political and economic views give rise to debates.

Debates on Privatisation in Indonesia

Public responses and the role of the press in the privatisation issue cannot be separated. They are complementary. People inform, respond, or react to each other, to the government, or to media organisations about certain policies or issues. The press, on the other hand, picks up issues within society, transforms them into a certain language and returns them back into society. Of particular interest in this case are not only the arguments contained in the debates, but also the freedom and the openness of the press in covering the issue of the privatisation of public enterprises.

Arguments For and Against Privatisation

Large-scale debates on privatisation in Indonesia began at the end of 1985, when the covered arguments about the plan of privatising the TOR Gamba palm-oil plantation. The privatisation issue became even more topical from the beginning of 1986 when a government officer from the Development and Finance Control Agency (*Badan Pengawasan Keuangan dan Pembangunan*), in a seminar held by the University of Indonesia, stated that state-owned enterprises not operating in strategic areas and not providing public services should be privatised (*Kompas*, 3 February 1986). This statement, which constituted a recommendation to review state ownership, invited contrary opi-

nions.

The central issue was perceived to be mainly about transferring government assets from the public to the private sector. This issue is sensitive because it relates to the Indonesian Constitution of 1945, which was hardly ever mentioned in the past. Consequently, debates extended to the ideology, politics and economics of the public enterprise sector. Many economists and businesspeople argue that the problems of the inefficiency of public enterprise in Indonesia are fundamentally derived from excessive government intervention. Treating public enterprise as an extra arm of the government tended, they argue, to discourage initiative and innovation, and to dampen the entrepreneurial spirit of the managers. State enterprises tended to become dependent on government subsidy, and subsequently burdened the national budget. It was suggested that government subsidies of public enterprises should not be maintained, otherwise development would stagnate. Accordingly, privatisation was seen as an appropriate way of solving these problems.

Counter arguments came from those who favoured a state-dominated system. They related their arguments to the ideology of the state and considerations of specific ethnic groups, especially Chinese conglomerates. In terms of ideology, privatisation of state-owned enterprises would move the economic system towards the capitalist system. This would not fit with Article 33 of the 1945 Constitution that legitimates a strong controlled sector. Another argument against privatisation was that public enterprises were assumed to be the fortress of the indigenous people (*benteng pribumi*). Transferring ownership out of government hands would mean that the economic power in the coun-

try would be held by a small group of people who were in the main Chinese Indonesians (*non-pribumi*).

The Role of the Press

There is no one who denies the role of the press in the recent change in Indonesia's public enterprise policies. The press coverage of privatisation issues in the years 1986 and 1987 was highly intense. It continues, with slightly less intensity, today. The issues brought out by the press not only attracted public attention and made people in society react to and anticipate what would happen, but caused the policy makers in the government to be more aware of their decisions or actions.

Apart from the role of the press itself, it is necessary to take into account who or what groups were standing behind the press. In Indonesia, the press is close to the elite class, or its businesses belong to the elite class through business groups, political parties, and politicians. The press in Indonesia could probably be divided into three broad categories: (i) the press that developed fairly independently (*Kompas*, *Suara Pembaruan*, *Tempo*, *Merdeka*, etc.); (ii) the press linked to a political party or political aspirations (*Suara Karya*, *Berita Yudha* and *Angkatan Bersenjata*); and (iii) the press supported by large capital owners (*Bisnis Indonesia*, *Media Indonesia*, *Warta Ekonomi*, *Neraca*, etc.). The press may therefore be responsive to particular business or political aspirations, conceptions or missions.

The press campaigns for state enterprises to be more efficient. This is reasonable since many state enterprises (e.g. electricity, tele-

com etc.) constitute the up-stream industries on which the private enterprise sector depends. By increasing the level of efficiency in these state enterprises, then by decreasing the output selling prices, the cost of production in the private sector would decrease, and so competitive forces in the market would increase. Moreover, many state enterprises hold monopoly positions or hold profitable fields of business. Privatisation (in terms of transferring ownership, joint ventures or joint operations) will open opportunities for the private sector to enter into public sector business activities. Another possible motivation for public debates in the press is that they were intentionally encouraged to test the acceptability of government policy plans.

However, whatever motives may be involved, the openness of the press in transforming public opinion has been most significant and has policy implications for the government, tending to prompt the government authorities responsible for state-owned enterprises to take action.

The Dilemma for the Government

The argument for privatisation seems to be influential, and is supported by at least four major influences. *First*, there is an international tendency to move from control by the state to control by market forces, which to some extent has an effect on Indonesia. *Second*, the government has experienced a lack of funds to finance national development. *Third*, as the role of the private sector become stronger, its voice becomes more powerful. *Fourth*, the press has been successful in crystallising the issues in society and has covered them openly.

Also there has been a shift of philosophy from the interpretation of 'control' previously taken to mean 'belonging to', to the interpretation of 'control' which has recently meant 'supervised by', the State. Since the beginning of the 'New Order' Government era the economic system has moved from the 'guided economy' to a 'democratic economy'. Foreign and domestic investment is encouraged, and was formally legitimised by Acts No. 1/1967 and No. 6/1968. The concept of state ownership, contained in the 1945 Constitution, began to be openly contested in discussion. For example Warouw (n.d., 36) claims that although the state, according to the Constitution, controls branches of production that are considered vital to the State and affect the life of most people, there is "no further explanation as to what constitutes 'vital' that greatly affects most people". In a similar vein, Soesastro, Simandjuntak and Silalahi argue:

Given the lack of theoretical foundation, one can for instance argue that a button in the shirt of millions of people is of strategic importance to the daily life of the general public (Soesastro, Simandjuntak and Silalahi 1987, 46).

The ambiguous meaning of the concept of control tends to create rhetorical arguments that may result in political interference in public enterprise operations. The two statements above suggest that a clear formulation of the terms 'strategic' or 'vital' is essential. It will be necessary to make clear distinction between the industries that should be retained in government hands and the businesses that preferably should be operated by the private sector, or a firm classification of the industries that public enterprise should operate on a commercial basis and the ones still needing government participation.

Nonetheless, political consideration linked to the Chinese conglomerate may constitute a potential barrier to privatisation, or at least, could cause a different form of privatisation than a straight transfer of state ownership. Privatisation of ownership means a transfer of assets and controlling rights from the public to individuals. The potential problem of a small group of people controlling a major portion of the economy (see Hill 1990, 56; *Warta Ekonomi* 1989, 20-65) is still a sensitive issue.

This, then, is a dilemma facing Indonesia concerning the program of privatisation. The government faces budget constraints; selling public assets would result in revenue and there would no longer be the need for funds from government to public enterprise as subsidies. However, selling public assets to the Chinese may raise political problems. As Ng and Wagner argue:

On the one hand, the transfer of ownership of public enterprises to Chinese Indonesian entrepreneurs could cause serious political problems. On the other hand, businessmen with the entrepreneurial skills and resources to take over the public enterprises belong mostly to the Chinese Indonesian ethnic group (Ng & Wagner 1989, 220).

Similarly, Sadli (1988) asserts that the political climate under the 'New Order' Government has been conducive to the development of the (foreign and domestic) role of the private sector in the economy. But, "if only the foreign and Chinese enterprises are growing fast, that will in time result in a political backlash and political efforts to restrict their further growth" (Sadli 1988, 224).

These political implications may lie behind there being no official term of 'privatisation' used in Indonesia. The issue is ob-

viously politically sensitive. Yet, the government's response on privatisation policy has been clear. Public policy reform in public enterprise administration, which takes the form of company restructuring and simplification of control systems, has been launched and aimed at efforts to enhance the efficiency and effectiveness of public enterprise management.

Restructuring and Improving Control Systems

The issue of the alleged inefficiency of public enterprises has always attracted public attention, and, as discussed earlier, it has aroused public debates. The government itself has legitimised concern about the inefficiency of public enterprises. In a Complete Cabinet Meeting on December 30, 1986 the President instructed all ministers to increase the level of productivity and efficiency of the public enterprises in their departments. Three years later, after intensive evaluation of each public enterprise, the Indonesian Minister of Finance explained in a press release that the critical problems faced by Indonesian public enterprises were: (i) the weaknesses of financial structures; (ii) lack of managerial capability; and (iii) absence of efficient and productive methods, and lack of managerial flexibility in the decision making process (*Kompas*, 7 October 1989).

Consequently, because of the inefficiency of many public enterprises combined with shortages of government funding, present core government policies are designed to enhance the efficiency and productivity of public enterprise management. The approach used in this policy reform consists of: (i) company restructuring; and (ii) simplification of the decision making process.

Company Restructuring

Company restructuring, which is covered in the Minister of Finance Decree No. 740/KMK.00/1989, was planned to be conducted through six approaches, as follows:

- Changing the legal status of public enterprises into a status that is likely to be conducive to efficient and productive operations (e.g. from a public law basis to a business law basis).
- Contracting out the enterprise to a third party (public or private enterprises) with the purpose of increasing market shares, technological/operational capability and managerial efficiency.
- Consolidating or merging the enterprise to increase working capital, in order to increase market shares and competitiveness.
- Splitting-up the enterprise into two or more productive enterprises, in order to strengthen internal control and to increase business services.
- Going public through the capital market, if the company is able to comply with the requirements of the capital market, or otherwise the direct placement of shares (i.e. not through the capital market). Going public or direct placement of shares is intended to improve the capital structure of the company and simultaneously extend the people's participation through ownership of shares.
- Joint ventures with private sector businesses to extend market shares, operational capability and improve capital returns.

The method of company restructuring undertaken in any particular case, would obviously have effects on the future management of the enterprises. Changes in their

legal status from the *Perjan* to the *Perum* or to the *Persero*, or from the *Perum* to the *Persero* would bring public enterprise into the commercial arena, and consequently would lessen government intervention. Consolidation, mergers, or splitting-up policies would have implications on the range of control of the management. Management contracts, going public, direct placement of shares and joint ventures would all open the opportunity for third parties to be involved in controlling the enterprise. It would also tend to make public enterprise more transparent and open to public scrutiny. This, in turn, creates further pressure on the government to ease its controls over public enterprises, and pressure for public enterprises to run their business with commercial orientation. Otherwise third parties would not want to be involved in managing the enterprise or wish to buy shares in the enterprise.

In addition, the process of company restructuring mentioned above is not likely to be greatly different in practice to the concept of privatisation. It covers transfer of ownership, contracting out, splitting-up, consolidation, and liberalisation by allowing the private sector to be a partner in joint-ventures. Hence, what is here called company restructuring is, by definition, a process of privatisation. More specifically, the above restructuring strategies involved: divestment policy, organisational changes and managerial reforms. These were intended to increase levels of efficiency and productivity by introducing public enterprises to the greater market orientation.

Policy Implementation

By November 1989, the Minister of Finance announced an implementation plan,

in which 52 public enterprises would go public, 15 would change their legal status, 5 would sign management contracts, one would become a joint operation, 17 would merge with other public enterprises, 16 were to become joint ventures, and six would be sold (*Kompas*, 13 November 1989). It is interesting that under this policy, three public enterprises would be liquidated. This must be the antithesis of the conviction that a state-owned enterprise is not subject to bankruptcy. The remaining state enterprises are to undergo improvement in their management.

Although the government planned to apply the above policy implementation plan in 1990 and 1991, delays have in fact occurred. Information gathered from many sources indicates that up to 1991, only one (from fifty-two) public enterprise has gone public -- that is PT Semen Gresik (cement company); fourteen (from fifteen) public enterprises have changed their legal status, i.e. two from *Perjan* to *Perum*, seven from *Perum* to *Persero*, two from PN to *Persero*, and three from project/unit-business to *Persero*; one (from sixteen) -- PT Intirub (tire manufacturing) has conducted a joint venture with private companies (PT Bimantara Citra and PT Astra Group) by direct placement of its shares; two (from six) public enterprises have been sold (PT Lepin to its employees, and *Perum Pengerangan Tembakau Bojonegoro* to a co-operative); and three (from seventeen) public enterprises have merged with other state enterprises.

Moreover, a new salary structure of the Boards of Directors and Board of Supervision has been introduced. The new salary structure links with the financial performance achieved by the relevant public enterprises. This must provide an incentive to

stimulate the Boards to achieve levels of return, increase competing power, and so increase levels of efficiency. A further important action to improve levels of efficiency was rationalisation of personnel, e.g. PT Tambang Timah (State Tin Company) from around 24,000 to 13,500 employees, and moving of the public enterprise head office from Jakarta to a place close to production sites, e.g. PT Tambang Timah to Bangka, South Sumatera, and PT Pupuk Sriwijaya (State Fertiliser Company) to Palembang, South Sumatera.

Although the above situation shows that some privatisation has occurred in Indonesia, the delay in the implementation plan indicates that the process of privatisation is not easy. The difficulties in implementation are both political and technical. It has been argued that political reluctance is related to the national philosophy and the legitimisation of state ownership under the 1945 Constitution. Ethnic disparity is also a potential barrier to privatisation, particularly for transferring ownership. Another arena of political reluctance in the privatisation process might come from within the responsible ministries, since privatisation would lessen their control. Technical constraints are also possible in the capital market. The most significant feature of company restructuring is that of selling shares through the capital market. Since capital markets have been sluggish, and the public's ability to buy shares is still weak, the divestiture of public enterprise is slow.

Simplification of the Control System

The policy of restructuring, as regulated by Minister of Finance Decree No. 740/KMK.00/1989, is interesting since through it

the government allows more public scrutiny and market control, and so lessens government control over public enterprises. A close interlinkage between government and public enterprises, on the other hand, would tend to bind public enterprises under many regulations and bureaucratic administration which may reduce their flexibility in running the business. This, in turn, would possibly lessen private sector willingness to invest in public enterprises.

The Decree of the Minister of Finance No. 741/KMK.00/1989 strengthens the policy of company restructuring. It is concerned with simplification of control systems, and covers: (i) corporate plans; and (ii) shortening the policy decision making process. Both of these methods provide ways for the government to relax its controls over public enterprises.

(i) Corporate Plans

Each individual State-Owned Enterprise is required to prepare a long-term plan (a corporate plan) for a five-year period, besides an annual work plan and a company budget. The corporate plan is intended to function as a medium of negotiation between the government and the enterprise in deciding the goals of the enterprise. It is intended to provide the enterprise with clear objectives and appropriate performance measurements. The objectives and performance criteria are to be negotiated beforehand between the responsible department, the Department of Finance and the enterprise. The achievement of the plan's targets would be continually monitored.

In formulating this plan, the enterprise gains access to the business environment

through a critical SWOT (strengths, weaknesses, opportunities and threats) analysis. Therefore, the corporate plan should be an integrated corporate management plan which provides a range of policy instruments for satisfactory corporate performance as well as the implementation of government policy decisions. With such plans in place, the responsible department should not be involved in the day-to-day operation of public enterprises. Success or failure of the management could be assessed in terms of the achievement of objectives which have been agreed to by the responsible department, the Department of Finance and the enterprise. 'Control by results' could be implemented through this policy.

However, so far there has been little practical experience in the use of corporate plans and financial targets in the Indonesian public enterprise sector. The development of corporate plans is mainly done by management consultants. The intention to make corporate plans the medium of negotiation between the Department of Finance, the technical department, and the state enterprise in deciding the objectives and the performance criteria has not yet been put as the priority. Furthermore, the preparation of corporate plans may be doing no more than fulfilling a formal government requirement. As the report of the World Bank (IBRD - International Bank for Reconstruction and Development), on PT Tambang Timah, says:

... the corporate planning function within the company has not had any meaningful influence and anything which has been prepared has not been thought through with regard to viability of operations, returns on investment and the real profitability of various functions within the business. The relevance of a corporate plan written in 1988 is not clear. In particular, there is no linkage between the report and the annual budgets prepared by the company.

Furthermore, the corporate plan is submitted to MME [the Minister of Mines and Energy] and neither PTTT [PT Tambang Timah] nor MME appears to have used it as a strategic document. In addition, the company spends approximately four to five months of each year preparing a financial budget which is submitted to the Department of Finance and MME. Whilst this is a long process, it is a rather meaningless effort (IBRD Report 1991, 37).

(ii) Shortening of the Policy Making Process

This policy initiative is undertaken mainly through delegation of authority. The Minister of Finance delegates his authority to first, the Shareholder General Meeting regarding decisions about the writing-off fixed assets which have a normal economic life of more than five years, and second, the Supervisory Boards regarding approval to use fixed assets as collateral for short-term loan withdrawal, to write off and depreciate bad debts, to write off unmovable inventories and fixed assets that have a normal economic life up to five years, and the adjustment of organisational structure. This approach could reduce bureaucratic processes, under which matters used to pass across at least 31 desks to get approval from the Minister of Finance.

Accepting the political desire of the government to reduce control, the application of such policies needs more clarification. For example, we could ask whether shareholder general meeting will be held shortly after receiving a proposal of writing-off the fixed assets of a public enterprise? Normally, the shareholder general meeting is led by the respective technical minister (in accordance with the Government Regulation No. 3/1983, the Minister of Finance, as a formal shareholder, delegates the authority for leading the meeting to the respective

technical minister) and attended by representatives from the Department of Finance and the public enterprise. This must be at a time agreed amongst them, especially when high ranking officials need to attend the meeting. The Supervisory Boards also assume that the new powers obtained from the Department of Finance need to be exercised with a high level of responsibility, while detailed guidelines on the criteria for approval of using fixed assets as collateral, writing off and depreciating bad debts, writing off unmovable inventories and fixed assets, and adjusting organisation structure are not ready yet. This may create in the Supervisory Board hesitancy to take decisions, or the Board may ask for guidance from the Department of Finance before a decision is taken. If so, this would generate a new time lag in policy making.

Financial Implications of the Reform

A review of public enterprise performance is fundamental for the policy direction that would be undertaken as well as for measuring the success or failure of such a policy. The Indonesian government has developed performance measures for public enterprises to decide the sound condition of a public enterprise. It has concentrated on financial areas, since operational areas would correspondingly be included in the analysis of financial matters. The method used for evaluation has been a combination of three basic financial criteria.

The three criteria were *liquidity* which measures the company's ability to cover short-term liabilities, *solvency* which measures the company's ability to cover total liabilities (short-term and long-term liabilities), and *profitability* which measures the

company's ability to earn profits. From these criteria, with a formula to weight them 12.5 per cent for liquidity, 12.5 per cent for solvency and 75 per cent for profitability, the government determines whether a public enterprise is healthy or not. Four categories, very healthy, healthy, less healthy and not healthy, were utilised by the government in deciding one or more approaches towards company restructuring, and are now used to decide the level of Board salaries.

It is clear from here that profitability has been given a high weighting, favouring those public enterprises which have been prepared to enter commercial areas. However, the method of evaluation was criticised by the general public, and by public enterprise managers, technical departments, interest groups, members of parliament, and deemed not to be fair (see Mardjana 1992, 110). This was because the criteria of evaluation did not distinguish between various types of industry and different legal status of public enterprises. Different type of industry have different fields of activities and different legal status, reflecting different objectives, activities and levels of autonomy. Therefore, it is argued, they should be measured by different criteria and standards. Moreover, the method of valuation of public enterprise assets is also crucially important. Since the government employs the historical cost method, depreciation costs charged to production will be understated and so public enterprise profit will be overstated. Another important consideration is that the financial criterion is a general measurement, so that a very healthy or healthy enterprise may not automatically be assumed to be efficient. For instance, a monopoly enterprise may not be efficient, but may make high profits. This may be merely because the enterprise is

price-maker, which sets up its price based on the 'cost plus' principle (costs plus a certain profit margin).

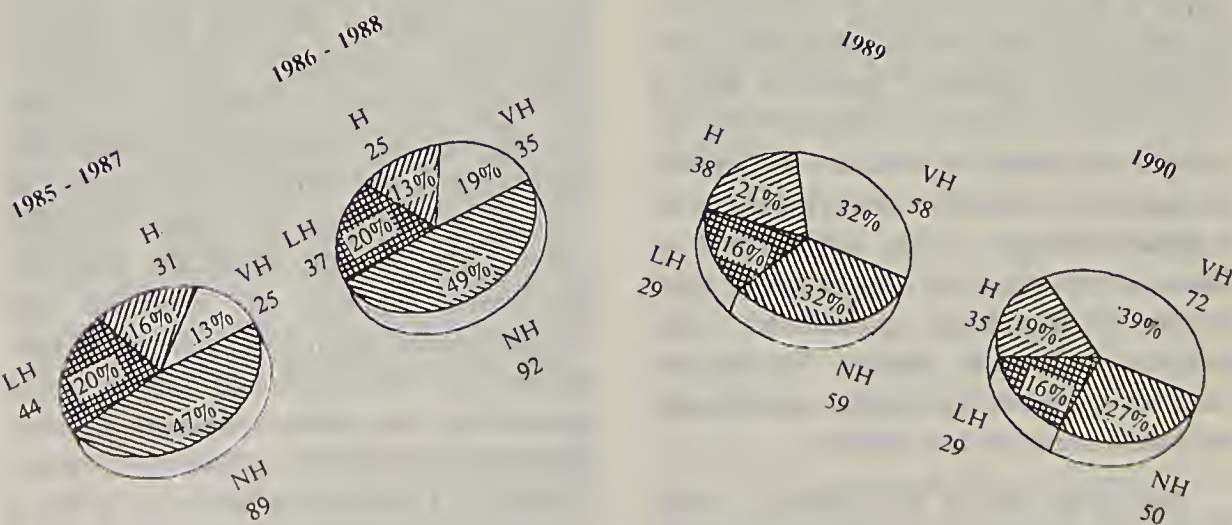
Nonetheless, to accept the method of valuation prepared by the Department of Finance, the above financial conditions indicate that the very healthy enterprises have increased from 13 per cent of total public enterprises in the period 1985-1987, to 19 per cent in the period 1986-1988, and in 1989 and 1990, to 32 per cent and 39 per cent respectively. Public enterprises in the category of not healthy, which was 47 per cent during the period 1985-1987 and 49 per cent during the period 1986-1988, reduced to 32 per cent and 27 per cent in 1989 and 1990. Using these figures, we may conclude that

the policy reform has had some success in improving public enterprise performance.

Since the level of profitability has given a high weighting, it may be interesting to look at the progress of returns of investment (ROI) of those public enterprises before and after the reforms. Apart from the method of asset valuation used, ROI is a common and useful means of measuring the effective use of a company's assets. It is determined by profit margin and asset turn-over. A low ROI may indicate the existence of excess capacity, low revenue, and/or inefficiency in production, purchasing or marketing. Therefore, ROI is a comprehensive yardstick in measuring efficiency and productivity of the operation of the enterprises.

Figure 1

THE FINANCIAL CONDITION OF INDONESIA PUBLIC ENTERPRISES

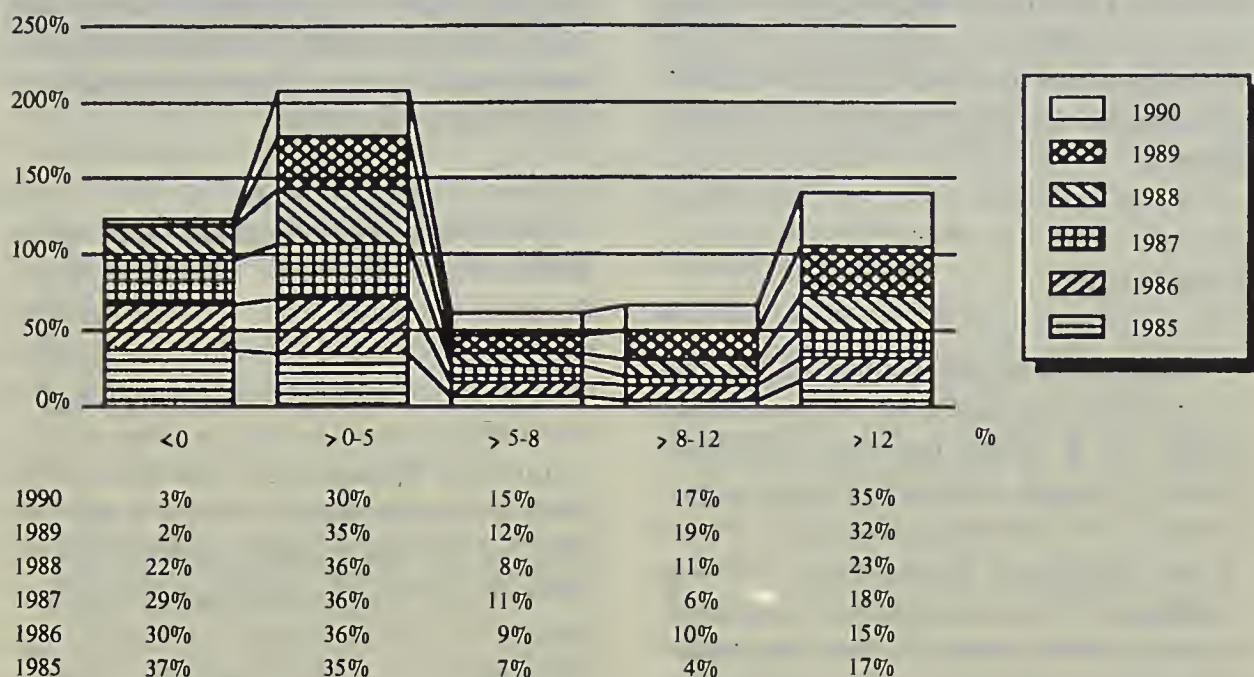


Source: The Indonesian Department of Finance

Notes: VH = Very Healthy; H = Healthy;
LH = Less Healthy; NH = Not Healthy.

Figure 2

RETURNS ON INVESTMENT OF INDONESIAN PUBLIC ENTERPRISES, 1985-1990



Source: The Indonesian Department of Finance.

The general level of Indonesian public enterprise rate of returns of assets, within the period of 1985-1990, is shown as in figure 2.

During this time, there was a general improvement in Indonesian public enterprise performance. The total number of public enterprises that experienced losses (ROI less than 0 per cent) decreased from 37 per cent of total public enterprises in 1985 to 3 per cent in 1990, and those that had ROI higher than 12 per cent increased from 17 per cent in 1985 to 35 per cent in 1990. However, although there is general improvement in public enterprise performance which may stem from the reforms, many public enterprises still have ROI of less than 8 per cent

(or was negative) which was far below bank interest rates. The total of state enterprises in this category was 79 per cent in 1985, 75 per cent in 1986, 76 per cent in 1987, 66 per cent in 1988, 49 per cent in 1989 and 52 per cent in 1990. The most interesting aspect to note is that low rates of return were experienced by the *Perseros* whose activities are formally defined as commercial.

A quick inference that can be taken from the low level of ROI is that this indicates the companies still having a low turnover of assets and a low profit margin. The low asset turnover was caused by under capacity of utilisation of the enterprise investment, or by public enterprise assets being used unproductively. The low profit margin stemmed from

low revenue and/or high costs. This appears to characterise the phenomenon of public enterprises in Indonesia. Accordingly the Indonesian government has not yet been completely successful, but still needs much effort to increase level of efficiency and productivity in public enterprise operation and management.

Conclusion

Strong government control of the economy during the 1950s was supported and steered by a strong nationalist sentiment against colonial domination and strengthened by the aspiration of socialist thought of the 'Old Order' Government. This was combined with the notion that natural resources should belong to the state vested with the responsibility of fair distribution amongst the citizens. Therefore, state ownership became the salient government policy tool.

The new economy designed by the 'New Order' Government since 1966 has emphasised supervision, not control, of the economy. The government has followed a more open economic policy that allowed foreign as well as domestic private companies to invest in wider sectors of the economy. Nevertheless state domination was still of crucial importance. It resulted from the weaknesses of the capital markets in mobilising financial resources and the unwillingness or inability of the private sector to invest in those industries which usually have high risks and require large amounts of money. This was associated with the general conviction prevailing amongst officials in the government and controlling agencies that only government is able to undertake and promote development

in the country. Moreover, rapid industrial development that derived from growing government revenue resulting from the increase in oil prices was a coincident phenomenon which resulted in public enterprises playing a more prominent role in the Indonesian economy during the 1970s.

Economic and financial difficulties during the 1980s, plus international influences, especially from Western development agencies, have pressured the government to review public enterprise policy. The privatisation concept, both in terms of divestiture and management, was launched in order to bring companies into a new environment of less government control and to allow enterprises to compete in the marketplace. There is a reorientation from the close 'government -- public enterprise' relationship to the strong 'public enterprise -- market' relationship and would place public enterprise within a competitive environment, which provides external incentives for managers. Markets reward to produce good products and penalise unsatisfactory quality and/or inefficient commodities, and capital markets scrutinise the quality of management through the signals sent by relative share prices in capital markets. At the same time, reliance on market controls would mean reducing bureaucratic controls. This can also provide managers with internal incentives. When state enterprises operate at "arm's length" from the government, managers have their own discretion to decide and to be responsible for the objectives agreed to in advance and specified in the corporate plans. However, the success (or failure) of public enterprise reform will to a great extent depend on political will and consistency of policies within the government.

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Mobilisation of Public Savings

Djisman S. Simandjuntak

Changes in Financial Environment

PROVIDED that in the Sixth Five Years Plan Indonesia wishes to sustain its economic growth at 5-6 per cent a year, the financing of investments will emerge as one of the more delicate questions. The deregulation of industry and trade is indeed expected to lead to a better efficiency in resource allocation. According to the estimate of the World Bank, this improvement already took place from 1980 to 1990, compared to five years before, as was reflected in the reduction of the incremental capital output ratio (ICOR) to 3.0 from 4.9. Nevertheless, this coefficient will possibly rise again due to a variety of reasons.

First, a low ICOR in the last few years may be a reflection of too small an investment in the infrastructure as reflected in the discrepancy between supply and demand of infrastructure since 1990. For the coming years, Indonesia will have to multiply its investment in infrastructure, both physical and

social. *Second*, the output-capital ratio of the companies may also increase. If to date the main source of the economic growth has comprised of the extensive growth in the utilisation of labour, capital, and natural resources, in the coming years new sources of growth have to be emphasised in terms of both supply and demand. In the intermediate term, the improved efficiency in resource allocations due to a more competitive environment may indeed be expected to give increased contributions to growth.

But in a longer term, investment in research and development will be increasingly urgent for sustainable development. Expansion of export as a base for growth will also be in need of investment in the infrastructure of trade like distribution channels that is international in scope. Besides, the shift of the structure toward processing industry and modern services will possibly also help drive the output capital ratio upward. *Third*, changes in the economic structure which are expected to take place need the support of large investments in education and training.

The expenditures of the government for education that have been low so far, in comparison with those of the more advanced neighbouring states should be expanded, which also applies to the expenditures of companies made for the same purpose.

On the other hand, some changes in the international financial environment necessitate rethinking about the composition of domestic savings and import financing in financing national development. It is not only the programme of reformation of the former socialist countries which will call for the support of huge international financing. The governments that to date have formed the core of the creditors' circle are faced with the problem of budget deficits. Demographic changes that are directly related to the deficit in the social system are estimated to widen the gap in the financing of these countries. In other words, capital inflows in the form of foreign aid will possibly experience a slowdown. Even Japan will have to heed the needs of new debtors like Vietnam and Russia. This aid will be increasingly used as an instrument for the strategy of benefaction and leverage. In this connection Japan has announced its Charter of Foreign Aid in line with the conditionally expanded by the Development Aid Committee (DAC) states. The perception of a New World Order with its principles of democratisation, the upholding of human rights, control of military expenditures, and environment conservation are being included in the dictionary of conditionality. This means an increase of the non-economic costs of foreign aid.

The private financial institutions of these states must and have reinforced capitalisation, beginning with the banking institutions and will be followed by the non-bank finan-

cial, insurance, and capital market institutions. Besides, the developing countries which were formerly inflicted by a foreign debt crisis and did not play a major part as receivers of fresh loans have now re-entered the international money market, generally through the sale of bonds, including collateralised bonds. They will compete with Indonesia at least in the commercial money market. This took place when the money market itself went through changes in the form of a relative increase, though still small in absolute terms, in the equity flow as contrasted to the debt flow.

In this connection it is worth noting that direct foreign investment tends to be concentrated in the industrial countries themselves and in middle income countries, which by virtue of regional blocs such as the European Community and AFTA, enjoy free access to the largest global markets. Although the direct flow of foreign investment to Indonesia has sharply increased for the last few years, this increase is not as strong as that occurring in Mexico, China, Spain and Portugal. Indonesia's ability to attract indirect equity investments such as country funds, is also very limited, among other things owing to the deficiency of the stock exchange market itself.

Savings Mobilisation in Indonesia

The mobilisation of savings has long constituted an important element in the agenda of Indonesia's economic policy. In the first years of the New Order, when Indonesia was faced with a very unfavourable position of financial resources, the subsidisation of deposit interests was even used as an instrument to mobilise savings. The interest rate for a twelve months time deposit, for instance,

reached 72 per cent a year in the first quarter of 1968 and in the second quarter of 1969. But this high interest rate was short-lived. In mid 1972 it went down to 18 per cent and even declined to 9 per cent by early 1978.

The 1970s can indeed be considered unfavourable years for savings. In this decade Indonesia experienced a high inflation rate, the rupiah was overvalued, the banks actually did not need to bother to mobilise public savings owing to the availability of liquidity credit of Bank Indonesia, and due to the government that enjoyed big oil revenues and was not under pressure to collect taxes to improve the position of financial resources. The unfavourable situation with regard to savings was probably related to the *Dutch Disease* following the sudden increase in revenues from oil as well as from some other natural resources, especially logs. This commodity boom even worked as an attractive bait for foreign creditors. Government's loans continued to increase, and likewise those of State companies like Pertamina and Garuda.

Drastic changes occurred after the commodity boom terminated in the early 1980s. From 1983 up to the present day, the government has adhered to a rigid macro policy. In order to improve the resources of the public sector, big projects have been rescheduled, the management of state companies has been improved, so as not to burden the State Budget, and certain initiatives have been taken, such as tax reforms, for the purpose of increasing tax revenues.

In the monetary field, a series of policies were adopted with the intention to minimise, if not eliminate distortions of prices in the monetary sector. The monetary control has changed into a pro-market one, with in-

terests and conversion rates that are also formed by the market, although with some inconsistencies. The financial banking institutions, which originally relied on the liquidity credits of Bank Indonesia in financing its operations, have to look for corporate and household savings. The competition for funds greatly increased in strength after the promulgation of the October 1988 deregulation Package, which was then followed by an increase in the number of banks, their branches and other offices, so that there were those saying that there were too many banks in Indonesia.

With the announcement of the February 1991 deregulation package which, among other things, stipulates that the sound criteria be based on five groups of criterion, such as the quality of productive assets, capital adequacy ratio, and the ratio of loans and deposits, the banks are increasingly being pressed to mobilise public savings, on the one hand and to be conservative in channeling the credits, on the other hand. The latter means among other things that the corporate sector can no longer be highly dependent on bank credits in financing investments. They are also under pressure to mobilise savings. Perhaps it is not an exaggeration to describe the period after 1988 as an intense campaign for savings in the history of the Indonesian economy.

Financial deregulation does not automatically result in an increase of savings. Research in financial deregulations in the Scandinavian states has shown that, at least temporarily, savings may decrease after deregulation, because of a boom in consumer credits.¹ There are indications that a similar

¹Olli-Pekka Lehmussaari, "Deregulation and Consumption: Savings Dynamics in the Nordic Countries," *IMF Staff Papers* 37, no. 1, 71-93.

development may also occur in Indonesia, as shown in Table 1. Although accurate research still need to be conducted, bank credits on the whole, increased more quickly, i.e. by 340 per cent in late April 1992 compared with that of 1986, while investment credits rose only 275 per cent in the same time span. If it is true that consumer credits have a higher turnover than investment credits, there is an increasingly strong assumption that a boom in consumer credits will occur in Indonesia after the financial deregulation. From the estimate of the national statistics, it is also evident to what extent the increase in economic growth in the post-deregulation years is still affected by the expansion in consumption which may be also related to the boom in consumer credits.

Table 1

**BANK CREDIT POSITION
IN RUPIAHS AND FOREIGN CURRENCY
(in Billions of Rupiahs)**

	Total	Changes (Per Cent)	Investment	Changes (Per Cent)
1986	26,402		7,880	
1987	32,852	24.4	7,880	17.7
1988	44,001	33.9	11,969	33.3
1989	63,606	44.6	14,988	25.2
1990	97,696	53.6	21,452	43.1
1991	113,608	16.3	26,531	23.7
1992	116,140	2.2	28,618	7.9

Source: Bank Indonesia.

Strong evidence of improvement in savings in Indonesia cannot yet be gathered. According to the Economic Report of the World Bank the gross national savings in Indonesia have indeed gone up since 1986, to 22.1 per cent of the GDP (gross domestic

product) in 1990, and is expected to rise again to 22.2 per cent in 1991. But the rate of gross national savings in the years after 1986 did not differ much from the savings rate of the previous years.

Table 2

**GROSS NATIONAL SAVINGS
AS PDS PERCENTAGES**

	Total	Public	Private
1981-1982	25.2	8.7	16.5
1983	21.0	8.9	12.1
1984	21.7	10.0	11.7
1985	21.5	8.2	13.3
1986	17.4	4.9	12.6
1987	19.1	4.8	14.3
1988	19.9	5.4	14.5
1989	21.7	6.5	15.2
1990	22.1	9.4	12.7
1991	22.2	8.9	12.3

Source: World Bank, Country Report 10470-IND.

The year 1990, was even worse than 1981 and 1982 in terms of national savings rate, although this deterioration is connected with the sharp decline in oil prices on the one hand, and the soaring debt service due to the appreciation of the yen, on the other hand. In order to provide a clear picture, these savings figures are reproduced in Table 2. The savings of the public sector were very low in the four years after 1986, with the share of national savings declining to 25 per cent in 1987. Just as the fluctuation in national savings as a percentage of the GDP, failed to indicate a clear pattern, so did the private savings. In 1990 for instance, private savings in Indonesia were 12.7 per cent of the GDP or much lower than the average of those in 1981-1982. Whether Indonesia will ever

follow the pattern of changes in the savings that occurred in other countries like Taiwan, namely the pattern of low savings at the beginning of national development, to subsequently soar and remain high, cannot be estimated on the basis of developments for the last ten years.

The mobilisation campaign of funds which was promoted by the banking community indeed showed a success to a certain extent in order to stimulate private savings. The funds accumulated by banks rose from Rp 23.5 trillion at the end of 1986 to Rp 98.5 trillion in late April 1992, or went up by 319 per cent, although one did not know for sure the portion of deposits of non-members in the total deposits. The share of deposits in the GDP (gross domestic product) also saw a sharp increase, from 5 per cent in 1982, to 27.5 per cent in 1990.

But in this regard a few remarks must be made. *First*, the growth in funds mobilised by banking institutions is not as strong as that of the extended loans. *Second*, the composition of deposits in terms of their period of time become shorter. The share of time deposits of less than six months, of the total deposits, went up from 44 per cent in late 1986 to nearly 74 per cent in late April 1992. And yet, in those years and beyond, Indonesia will increasingly need long-term funds in keeping with the changes in the economic structure. *Third*, the composition of currency deposits has also changed. If at the end of 1986 the deposits of foreign currency represented only 24.6 per cent of the total deposits, in late April 1992, it already stood at 31.6 per cent. This change had an implication in the utilisation of the funds, namely a rising need of protection against fluctuation of the conversion rate, by both banks and bank debtors. *Fourth*, the composition of

the deposits by ownership had also changed, although personal deposits were still dominant, its share rose from 41.4 per cent in 1986 to 52.6 per cent in 1991. It should also be noted that the savings of private companies saw a strong increase from 7 per cent in 1986 to 20 per cent in 1991, whereas the deposits of insurance companies and government corporations saw a decrease. *Fifth*, the increase of these deposits was attended by a sharp rise in interest rates and perhaps gave rise to a kind of saving proclivity or investment aversion on the part of the companies. The leap in the deposits of the companies between 1989 and 1990 was apparently not due to a stronger desire to save, but because of a surplus in cash that originated from the sale of shares on the capital market with a high agio. Although this change in the composition of savings will be highly beneficial to the companies, this will not be necessarily the case economically.

The funds owned by banks have an important position in the mobilisation of funds in Indonesia. Most Indonesian financial institutions are still predominantly comprised of banks. The number of other institutions such as insurance, leasing, venture capital and pawnshops are still very small. For several years to come, the mobilisation of savings in Indonesia will still be strongly based on the efforts of the banks.

Mobilisation Efforts in the 1990s

The financing of investments in Indonesia in the coming years will still depend on import financing, including foreign loans of the government and the private sector. Even so, there are strong reasons for reducing this dependence, on the one hand and seeking the

increase of domestic savings, on the other hand. The question is, as to what extent intensification of mobilisation efforts have increased endeavours that have been made so far, and to what extent they will be followed by an increase in savings. Government savings are not discussed in this section. What should be further explored are the changes in public savings, both those of the companies and of the households.

The propensity of the public savings is affected by a very large number of factors, including qualitative factors or those that cannot yet be quantified.² By and large, the savings are indeed highly dependent upon national income and its growth rate. In this context, there is a certain cycle. A society, which has a subsistence income in general, is in need of dissaving to make subsistence consumption possible, while a society with low income has in general low savings as a percentage of national income. This percentage would increasingly go up, following the graduation to the middle-income group, but then go down again, when the group concerned graduated to the high-income group. Although this cycle is not universally applicable, Indonesia, at present, is apparently still at the second stage. With the demographic features that change like the tendency of having small families and the increase of the share of the employed population among the population of the working age, it is natural to anticipate that the average propensity to save will strengthen in Indonesia in they years to come.

²Roger S. Smith, "Factors Affecting Savings, Policy Tools and Tax Reform: A Review," *IMF Staff Papers* 37, no. 1, 1-70; see also Angus Deaton, "Savings in Developing Countries: Theory and Review," *Proceedings of the World Bank Annual Conference on Development Economics 1989* (Washington, D.C., 1990): 61-95.

The savings are also affected by the degree of openness of the capital account and the incentive pattern followed by a certain state. The incentive of savings, for example, tends to work more effectively in open than in closed economies. Part of the deposits in Indonesia, for instance, are owned by foreigners who have come to reap profits from the quite high interest differentials. On the other hand, the developing countries which adhere to a closed capital account faced problems concerned with capital flight, at least in the 1970s and 1980s.

One of the targets aimed at by those countries through the deregulation of capital accounts is the repatriation of capital flight. This is different from the incentives of investments, which in an open economy tend to be ineffective in inducing savings of foreigners because the capital supply in an economy like this has basically a perfect elasticity. In this way, the open capital account, adhered to by Indonesia at present should probably be maintained in view of the interests of savings mobilisation. Should, the problem of capital flight arise, with the open capital account, this would be of a temporary nature.

Various studies on capital flight from developing countries did not include Indonesia as having a serious problem in that regard. Nevertheless, this matter is not inconsequential. The case of Pertamina, which is being brought to court in Singapore and anecdotal evidence reported by the press provide ample reason for serious attention to capital flight.³ Apart from the amounts, an open

³See Moh. Ikhsan Mahyuddin, "Pelarian Modal dari Indonesia: Estimasi dan Masalahnya" (Estimation and Its Problems) *Ekonomi dan Keuangan Indonesia* 37, no. 1 (1989): 83-113.

capital account is needed to repatriate the capital flight.

The third factor affecting savings is the rate of interest. That deposits in Indonesia indicate a leap in the post-financial deregulation era, at least partially may be due to the high interest rate that tempts the savers. It is ironic that in many developing countries the interest rate is often kept low artificially when the position of the economic resources is marked by deficits. From the aspect of savings mobilisation, it is also a big question, whether the strategy of import substitution, which is generally initiated by a promotion of consumer goods, will ever yield a sustainable development, especially if in the economy concerned there are not found sectors like those of oil, gas, and timber in Indonesia that could play a role as "milch cow." Naturally what is relevant in this regard is the rate of real interest income, given the rate of monetary depreciation used as a denomination.

Many empirical studies indicate that interest income has a positive correlation with savings. Some observe even hold that savings are very sensitive to interests. But on the other hand there are quite a few economists who are sceptical of this positive correlation. A high interest income, according to them, will exactly curb savings because a certain rate of consumption in future may be guaranteed with smaller savings than if the interest rate is kept low. In other words, the correlation between savings and their returns is not simple. For a developing country like Indonesia one can imagine that savings also have a kind of ceiling which is no longer sensitive to interest, the more so if the capital account is a closed one. Neither is a saver free to change the composition of wealth,

especially if the money market and the capital market are still backward. At this stage, questions may be raised about the concept of savings itself which can always be expanded, so that it includes all that makes up the deferment of consumption, including durables that have not as yet been consumed. Indonesia's recent experience also shows that up to a certain limit, the interest rate is no longer strong enough to stimulate the increase of savings to an adequate percentage.

The complexity of the relationship between savings and their returns are also reflected in the estimates of many countries. For example, the savings returns in Japan are generally lower than those in the USA. But the percentage of savings with regard to national income is much higher in Japan than in the USA. Besides, savings are not an end in themselves. This dilemma is being faced by Indonesian banking institutions at present where the high savings returns have succeeded, on the one hand, in stimulating deposits, but are too high, on the other hand to be utilised favourably by the business community. Hence, the greater part of the savings, which are mobilised by the banks find their way into the Certificates of the Bank of Indonesia, although their interest rate is lower than the deposit interest rates, paid by the bank. Therefore the mobilisation of savings has also to be measured. If the funds mobilised by the bank are perceived as too expensive by the potential user, it appears that the interest rate should be allowed to go down.

Aside from the above mentioned factors, there are many other factors that affect the savings. But the nature of these influences are not the same in all places and at all times. Empirical tests are badly needed in this res-

pect. A case in point is the high inflation rate which, on the one hand may discourage people from saving in fixed nominal assets like deposits and bonds, but on the other hand encourage them to save for precautionary reasons. Another case is the rising land prices or other forms of capital gain which, on the one hand encourage the deferment of consumption, but on the other hand may yield smaller savings as compared with a lower capital gain, because higher capital gain guarantees an adequate consumption level in the future.

Other examples are the pension and unemployment insurances that are designed in such a way that the endowment exceeds the premium, because part of the premium is guaranteed by the other party, be it the state or the employer. Such an insurance tends to keep the savings down and indeed is now a delicate problem in many advanced countries in connection with the discrepancy in financing. Indonesia should also be careful in this regard. Although social insurance is generally an important component in a market economy, it can also become a boomerang, considering its negative impact upon savings.

It is often said that the distribution of income into company and personal income affect savings. The company propensity to consume is regarded lower than the personal propensity to consume. Therefore it is recommended to tax personal income rather than capital income, if an increase in savings is required. It is also assumed that there is a negative correlation between transfer of funds to the low income group and the savings. Such a transfer will loosen liquidity impediments and increase the consumption of the transfer recipients.

In order to complete this discussion, a few factors should be touched upon that are related to savings. If profits are calculated every day and wages are paid likewise, consumption will possibly be higher than if calculation and the payment are performed every month. When people discussed Japanese savings, for example, one of the factors that are assumed to have a positive effect on savings is the payment of part of the income of the workers in the form of bonuses.⁴ Elsewhere, however, such bonuses may as well lead to a soaring consumption, especially if it has become routine. Culture, too, is related to savings. In certain societies such as, in Japan and China, savings are viewed as something that is highly necessary in connection with the wish to leave money to the next generation. In Batak society there is also a custom to equip a son with ample assets in the form of houses and farm land or other assets that yield a flow of income when he gets married. Savings based on this motive depends on the prosperity of elderly people.

Conclusion

The above analysis indicates how complex relations are between savings and the variables generally known as the determining factors of savings. In this complex field, the formulation of the savings policy has become very difficult, as has been experienced by Indonesia for the last twenty-five years. Until now, there has been no sign that socie-

⁴See Kazuo Saio, "Savings and Investment," in *The Political Economy of Japan. The Domestic Transformation* ed. Kozo Yamamura and Yasukichi Yasuba (Stanford University Press, 1987), 137-185.

ty has experienced a behavioural change in the sense of a greater love for saving. The latest overheating has been a good reminder how the propensity to consume may soar inadvertently, although this overheating is related to financial deregulations. This is not to deny that some policies in the mobilisation of savings are appropriate.

Nevertheless, certain problems still have to be handled in the years to come. *First*, the problem of savings is not merely a matter of availability. The costs that have to be borne by the beneficiaries, are important enough to be minimised. This means that it is imperative to improve the efficiency of banking institutions which really is not a simple matter, in view of the costs that are often perceived as prohibitive if an inefficient bank is allowed to go bankrupt. It also calls for a change in social behaviour. Although the returns of public savings are important, their essence is actually the need for consumption distribution by time.

Second, when the increase of the savings is highly needed, its current biases favouring consumption must be cleared away. The low interest rate, especially the zero interest for consumer credits still offered by some industries, are very odd in an economy, that badly needs an increase in savings. More serious attention should also be given to land as a competitor of savings. The sales of land by the low income group relax the impediments of liquidity and encourage con-

sumption. The financing of such land purchases very likely depends greatly upon bank credits; and its development can also be delayed because of the low income tax.

Third, the money market and Indonesian finance have become more sophisticated after the deregulation. Various alternative instruments are available on the market which are adjusted to the different groups of savers. Nevertheless, the deposit statistics indicate that the development of the money and capital markets are still restricted to a few business centres, especially in Jakarta. Meanwhile, the share of Jakarta markets in the Indonesian Gross Regional Domestic Product (PDRB), without oil and natural gas, in 1986 and 1989 were respectively 13.9 per cent and 14.6 per cent, its share in the bank deposits were respectively 67 per cent and 57.4 per cent.

By contrast, the share of North Sumatra markets of 5.9 per cent and 6.7 per cent, in the PDRB, in the same years, accumulated only 3.5 per cent and 3.2 per cent in the bank deposits in the same years. *Finally*, savings are closely related to the credibility of the institutions involved. Malpractice not only gives rise to reluctance to entrust savings to financial institutions, but also increases the costs. The experience in the USA was proof enough that deposit insurance is not a panacea for any possibilities of losses that may filter through to the depositors, should the financial institution come into difficulty.

Financing of Small Scale Business: The Indonesian Experience

Mari Pangestu

Introduction

ONE of the problems faced by small scale business on the input side is obtaining finance. The sources of finance open to small scale business are: own equity, formal financial sector and informal financial sector (including borrowing from family and friends). The main issue that needs to be analysed is the access to financial services according to location and according to size of enterprise.

Government policy on financing small scale business has undergone changes between the oil boom and post oil boom period. In the oil boom period there were several directed credit programmes to assist small scale business with the aim of pro-

viding better access and subsidising the interest rate. In the post oil boom period and with the realisation that the main problem faced by small business is access to credit rather than the level of the interest rate, the shift of emphasis has been more toward facilitating access with the interest rates being charged at market rate.

The aim of this paper is to review government policy in providing financing to small business and evaluate their performance. Only when one has a good idea about the problems with existing policies can one make some analysis and recommendations regarding what should be the optimal approach to financing of small scale business.

Past and Present Perspectives on Financing Small Business

Financing of small business in Indonesia has received a lot of attention from the government and the government has most directly intervened in the case of financing small

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business through directed credit programmes. There have also been several other schemes of late with the idea of providing funds to small business in the wider sense. Other than explicit government policies, special types of institutions have also developed and their experience is suggestive of the special factors that need to be considered when one deals with financing of small businesses.

1. *Special Credit Programmes*

During the oil boom period there were several special credit programmes to assist small scale business and to achieve the equity objective. These credit programmes began in 1974 and were administered through commercial banks who received liquidity credit from Bank Indonesia. The banks received liquidity credit at low interest rates (3-6%) to finance all or a large part of the credit programme, loaned it out to the "target group" at interest rates below market rate and at various rates of maturity (from three to twenty years). The refinancing from Bank Indonesia ranges from 18-100% (average 75%). Liquidity credits provided a major source of funding, accounting for 48% of total credit in 1982.

There were several main criteria for subsidising credit: economic (e.g. industrial development), food security (e.g. Bulog food stocks), to support rice production (e.g. agricultural credit programmes) and distribution to the "weak" economic sector (e.g. indigenous, small scale credit). Subsidised credit to small businesses came in the form of small business (*Kredit Investasi Kecil* [KIK] or Small Scale Investment Credit and *Kredit Modal Kerja Permanen* [KMKP] or Permanent Working Capital Credit). The pro-

gramme was also directed at the indigenous or pribumi group.

The KIK/KMKP programme can be said to have succeeded in terms of the amount of loans given out and the number of small businesses reached. By 1982, 23% of subsidised credit was for small scale. The latest figures on KIK/KMKP just prior to its elimination in April 1990 (see Table 1), indicate that under KIK there were 334,000 recipients with value of credit amounting to Rp. 1.9 trillion and under KMKP there were 2.5 million recipients with value of credit amounting to Rp. 5.8 trillion. This in fact accounted for around 70% of total subsidised credit for equity reasons (ie. small scale, very poor and indigenous). The interest rate of 12% on KIK/KMKP was much lower than the commercial lending rate which in 1990 was around 20%. It should also be noted that a large proportion of the loan was directed to short-term and trading activities rather than longer-term manufacturing activities because credit ceilings that were in place until 1993 apparently led to banks seeking higher profits by giving out short-term working capital loans and that the Bank Indonesia credits given were also short-term.

However, most evaluation of the KIK/KMKP programme concludes that while there has been some degree of success, there were many weaknesses and problems with the programme which tended to mean that the programme was not an optimum one in achieving the objective. The objective of the programme was to provide access to small indigenous businesses who often did not have collateral to get commercial loans. The inherent weaknesses and problems related to the quality of the credit. In summary most evaluation concludes that:

Table 1

SUBSIDISED CREDIT SCHEMES
(Value in Rp. Billions and No. Customers in '000)

	March 1986	March 1990	March 1992	Growth 1986-92 % p.a.	Share % March 92
Small Scale Credit					
No. Customers	272	334			
Value of Credit Approved	1,054	1,947			
Debt Level	326	749	477	6.5	4.5
Permanent Working Capital Credit					
No. Customers	2,053	2,491			
Value of Credit Approved	2,869	5,854			
Debt Level	889	1,784	1,417	8.1	13.3
KUPEDES					
No. Customers	273	938	1,535	33.3	14.4
Investment Credit	12	79	144	51.3	1.4
Working Capital	261	859	1,307	30.8	12.3
Credit with Max. Rp. 75 Million					
No. Customers	185	2,938	908	30.4	8.5
Investment Credit	78	1,145	908	50.5	8.5
Working Capital	107	1,796	0	-100.0	0.0
Cooperatives Credit					
No. Customers	300	416	2,114	38.5	19.9
Investment Credit	76	57	101	4.9	1.0
Working Capital	224	359	2,013	44.2	18.9
BIMAS					
No. Customers	145	132	0	-100.0	0.0
Low Cost Housing Credit					
No. Customers	336	643			
Debt Level	1,237	2,606	2,421	11.8	22.8
Nucleus Smallholder Estates (PIR)					
No. Customers	132	497	4	-44.2	0.0
Others					
No. Customers	666	1,084	1,753	17.5	16.5
TOTAL	4,153	11,144	10,629	17.0	100.0

Source: Bank Indonesia, Annual Reports

- the administering banks were not efficiently using the funds because the subsidy and the fact that the lending rate was determined by the government meant that they did not calculate the cost of funds properly. In addition implicit government guarantee and inadequate penalties meant that they were not given sufficient incentive to ensure that the credit was paid back;
- the lower interest rate on the credit implies that these were not feasible projects based on the calculation of the cost of capital (ie. the market interest rate) and thus tended to fail;
- subject to fungibility problems, that is the subsidised credit did not go to the targeted group, but was diverted to other uses;
- the administering bank became dependent on government subsidy and injection of funds such that they are not aware of the real "cost of funds" and did not develop their own capability to mobilise funds. The administering banks did not develop their intermediation function;
- the borrower also did not have the incentive to pay back due to the low subsidised interest rate and implicit government guarantee;
- affected the functioning of monetary policy and inflation control since the liquidity credit could not be used as an instrument to control the liquidity in the economy.

These problems have led to arrears and collection problems which is estimated to have led to a default rate of around 27%. The decline in government oil revenues since the fall in oil prices in the early 1980s and realisation of the problems with the programme, have led to the reduction and gradual elimination of directed credit programmes such as KIK/KMKP. Since Janua-

ry 1990 there have been several basic changes whereby many of the directed credit programmes were eliminated and the remaining ones subject to market interest rates.

2. *Financial Sector Deregulation*

a. *Banking Sector Deregulation*

In line with the aim of mobilising of domestic funds in the aftermath of falling oil prices and increasing efficiency, the government undertook two important financial sector deregulation packages. The first one was in June 1983 and the main reforms were: removal of all credit ceilings for all banks; reduction of the number of credit categories that can be financed by liquidity credits; removal of controls on deposit and lending rates (outside of those still being refinanced by Bank Indonesia) of state banks and removal of remaining subsidies on deposit rates by state banks. The second package began with the October banking deregulation and was followed by a series of follow up regulations on the banking sector especially with regard to prudential regulations and deregulation and improvement of the capital market.

The October 1988 package increased competitiveness of the banking sector by removing barriers to entry. New banks, joint ventures and domestic banks, can be set up with capital requirements of Rp. 50 and Rp. 10 billion respectively and existing sound domestic banks can obtain a foreign exchange license. Regulations for opening new branches were substantially relaxed and foreign banks were also allowed to open up one sub-branch in six other major cities outside Jakarta. State owned enterprises were al-

lowed to put up to 50% of their funds in private banks. The tax exemption on interest rate on deposits was eliminated to equalise it with dividends. There were also important prudential regulations introduced such as the legal lending limits for loans to a single borrower and to groups of borrowers.

After the October 1988 package there was a series of follow-up policy changes in the banking as well as other parts of the financial sector, notably the capital markets. Strict measures with regard to prudential regulations on banking was also increased during this period.

b. The January Package

In January 1990 (PAKJAN) the government announced a package of regulations to improve the system of credit allocation, even though the equity objective was maintained. The improvement was in the form of reducing in stages the availability of liquidity credits to banks and non-bank financial institutions. Despite the recognised need at the time of the 1983 banking deregulation to reduce liquidity credits (the number of special credit programmes was reduced from thirty-two to twenty-three), the amount of liquidity credits since 1983 to 1990 has increased rapidly. The increase in liquidity credits is thought to have contributed to inflation because it contributes to the increase in the money supply and liquidity by Bank Indonesia and the excess liquidity can also be used to speculate, especially in terms of foreign exchange purchases. Other than reducing liquidity, the reduction in liquidity credits is also aimed at reducing the dependence of banks and NBFIs (Non Bank Financial Institution) on liquidity credits.

Thus, in PAKJAN, the directed credit programmes using liquidity credits were reduced from twenty-three types to only four types. The remaining four programmes are: *Kredit Usaha Tani* (Farmers Credit), *Kredit Pengadaan Pangan dan Gula* to BULOG (credit for the supply of food and sugar to the logistics agency), *Kredit Koperasi* (credit to cooperatives) and *Kredit Investasi* (Investment Credit). Liquidity credit is still provided to the plantation sector, housing loans with ceiling of up to Rp. 50 million/customer and for financing projects (minimum five years) in Eastern Indonesia.

Other improvements are as follows. Farmers credit is only to be used for rice and crop intensification and does not have to be channelled through BRI. The credit is given based on the farmers needs and no longer based on quantitative criteria of credit per hectare. Credit to cooperatives is used to finance the supply of rice and cash crops and can also be used to finance the supply of cloves and fertilisers based on government set prices. Cooperative credit can also be used to finance the activities of its members outside of trading and services and based on the paying ability of the member in question (ie. based on its savings deposits and so on). The maximum credit is Rp. 30 million. The interest rate on these programmes will now be linked to the market interest rate and the interest rate of Promissory Notes (SBPU).

Other than reducing the number of directed credit programmes, in line with the development of small scale business and to achieve the equity objective, all banks except foreign branches and joint ventures, must provide 20% of their credit to small scale business (*Kredit Usaha Kecil* [KUK] or Small Scale Credit). Foreign branches and joint ventures have been exempted since they have

to satisfy the requirement of providing 50% of their credit for exports. The 20% is calculated based on the value of credit funded by own funds and excludes the special programmes financed by liquidity credits. The definition of small scale business is that the business owns assets, other than land and buildings, up to a maximum of Rp. 600 million and the maximum amount of credit is fixed at a maximum of Rp. 200 million per customer.

To widen the scope of KUK, provision of small scale credit can be provided through cooperation between general commercial banks and between general commercial banks and peoples banks. The achievement of KUK is linked with the soundness of the bank.

3. *Evaluation of the Impact of Financial Deregulation and KUK on Small Scale Business*

a. *Financial Deregulation in General*

The impact of financial deregulation in general benefits all parties in the sense of more efficient services and more effective intermediation. Specifically for small businesses the more widespread availability of banking services with deregulation and increased monetisation of the economy should in general enhance their access to the modern banking sector. Table 2 provides some basic figures on financial sector development after deregulation.

The consequences of deregulation were as expected. The removal of interest rate controls led to the immediate increase in interest rate and deposits. Real interest rates became positive, especially for state banks.

Total time deposits increased substantially but there was not much response in terms of demand deposits. Thus the M1/GDP ratio in fact declined after 1983 reform up to the second reform in 1988. Meanwhile the M2/GDP ratio increased dramatically from 17.5% in 1982 to 29.6% in 1988 due to the increase in time and savings deposits.

Since 1988 the growth of the financial sector has been dramatic. The deregulation has changed the market structure and competitive situation facing the banking sector. A significant number of new banks were set up and it can be seen that the number of private domestic banks and bank offices increased substantially after the 1988-1992 period. The number of banks increased from 110 to 184 and the number of bank offices from 9,181 to 12,543 (including rural banks). As a result the number of bank offices serving the population has improved over the 1988-1991 period as measured by the decline in the number of people served per bank office. Asset and credit growth have also been substantial. Furthermore, the range of new products and services have also increased due to the need to engage in non-interest competition. The increased innovativeness of banks have for example led to increased servicing of previously remote or small regions through "mobile" bank offices (*kas keliling*).

Competition for deposits as well as credit to prime customers initially led to an increase in the deposit rate but very little increase in the lending rate. As deposits increased and banks became overliquid the deposit rates started to come down until the beginning of 1990. However the tight money policy led to an increase in both deposit and lending rates beginning in 1990 and only started to come down in the beginning of

Table 2

FINANCIAL SECTOR DEVELOPMENT IN INDONESIA

	1968	1974	1978	1982	1988	1990	1991
No. Banks	172	162	134	117	110	165	184
State Banks	5	5	5	5	5	5	5
Private Forex	10	10	10	10	12	23	23
Private Non Forex	112	97	73	60	51	80	96
Foreign	8	11	11	11	11	26	29
Development	25	28	28	28	28	28	28
Savings	12	11	7	3	3	3	3
No. Branches	9,181	6,849	7,069	n.a.	9,434	12,079	12,543
State Banks	606	604	685	n.a.	815	945	960
Private Domestic	300	264	270	n.a.	559	2,052	2,639
Foreign	11	20	20	n.a.	21	48	53
Development	73	117	152	n.a.	290	396	468
Savings	19	17	14	n.a.	43	122	127
Rural Banks	8,172	5,827	5,928	n.a.	7,706	8,516	8,296
Population/Bank Off.	12,134	18,503	19,779	n.a.	18,394	14,934	14,617
Assets (% Share):							
State Banks	73.7	78.5	81.0	80.0	68.1	52.8	49.8
Private Domestic	19.1	8.4	9.0	12.3	26.4	39.2	41.6
Foreign	7.2	13.1	10.0	7.7	5.5	8.0	8.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Value Rp. Trillions)	869	6,155	9,140	16,653	63,587	132,918	155,255
Credit (% Share)							
Bank Indonesia	46.4	14.8	36.3	21.9	3.6	0.8	0.7
State Banks	46.4	72.1	53.2	63.4	66.9	56.1	53.9
Private Domestic	6.3	5.7	5.5	9.5	25.0	36.7	37.7
Foreign	0.9	7.4	4.9	5.3	4.5	6.5	7.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Value Rp. Billions)	121	1,574	5,324	9,894	42,805	95,394	110,992
M1/GDP (%) ¹	7.10	8.34	10.37	11.36	10.13	12.55	11.63
M2/GDP (%) ¹	9.37	12.87	15.92	17.68	29.62	44.60	43.70
Value (Rp. Billions):							
Demand Deposits	34	416	1,193	4,133	8,032	14,532	16,996
Time and Savings Dep.	12	412	1,335	3,913	21,015	46,150	56,112
Shares:							
No. of Issues	0	0		27	34	155	167
Value of Issues ²	0	0		133	167	8,034	9,171

Table 2 (continued)

	1968	1974	1978	1982	1988	1990	1991
Bonds:							
No. Companies	0	0	0	3	9	23	24
Value of Issues	0	0	0	405	936	194	2,215
Share Price Index (1982 = 100)				100	305.12	417.79	247.39
Assets (Growth % p.a.)	1968-74	1974-78	1978-82	1982-88	1988-90	1990-91	
State Banks	40.8	9.2	14.6	21.7	27.5	8.3	
Private Domestic	23.5	10.0	13.8	42.0	76.4	21.6	
Foreign	75.1	19.7	23.4	18.3	74.4	23.5	
Development	89.6	29.2	35.1	39.4	19.4	9.1	
Total	38.6	10.4	16.2	25.0	44.6	16.8	
Credit (Growth % p.a.)							
Bank Indonesia	26.7	69.9	9.4	-13.6	-31.9	9.1	
State Banks	65.0	25.7	29.8	37.4	36.7	11.8	
Private Domestic	50.7	34.9	41.9	73.0	80.7	19.6	
Foreign	118.6	22.3	26.3	30.2	79.7	37.8	
Total	53.3	35.6	16.8	27.6	49.3	16.4	
Demand Deposit Growth	51.8	30.1	36.4	11.7	34.5	17.0	
Time & Saving Dep. Growth	80.3	34.2	30.8	32.3	48.2	21.6	

¹1968 ratios are for 1970²Value at offering priceSource: IMF, *International Financial Statistics*, Bank Indonesia, Bappepam and World Bank estimates.

1992. At present while the deposit rate has come down, the lending rate has not come down in tandem due to lag problems and increased provision for bad debts.

Tables 3 and 4 provides some figures by province to determine whether there has been an improvement in the regional provision of financial services. It is a crude measure of improved availability of financial services to small scale business. Table 3 provides figures on per capital credit and depo-

sit. The figures for total Indonesia indicate that credit/capita increased 2.7 times and deposit/capita increased 2.6 times and as expected this was similar to the increases in Java. As for the provinces outside Java, while the figures are still much lower, similar and slightly higher increases were experienced in Sulawesi and East Indonesia. Slower growth was experienced in Sumatera and Kalimantan, however.

Table 4 provides figures on the number

Table 3

CREDIT AND DEPOSIT PER CAPITA BY PROVINCE (Rp. '000/Capita)

	1987		1991	
	Credit	Deposit	Credit	Deposit
DI Aceh	73.4	52.2	173.3	121.8
South Sumatera	234.5	118.9	540.1	290.8
West Sumatera	123.9	53.8	233.3	140.5
Riau	192.7	68.3	380.8	224.1
Jambi	94.6	44.7	295.1	114.6
South Sumatera	105.6	136.3	241.5	165.7
Bengkulu	63.6	38.2	197.6	89.9
Lampung	88.2	30.1	281.1	81.8
SUMATERA	143.8	82.0	338.9	180.2
DKI Jakarta	1,895.6	2,461.6	5,209.0	6,601.4
DI Yogyakarta	80.2	75.1	205.3	235.8
West Java	67.8	64.4	233.6	186.7
Central Java	67.9	41.3	198.0	123.8
East Java	122.4	67.0	347.7	213.0
JAVA	229.6	248.6	639.6	671.5
West Kalimantan	145.8	52.5	351.7	161.8
Central Kalimantan	75.1	43.8	130.4	123.9
South Kalimantan	178.6	66.9	322.6	147.4
East Kalimantan	298.9	205.7	623.9	494.9
KALIMANTAN	175.2	85.5	365.5	220.5
North Sulawesi	80.4	58.8	263.4	145.6
Central Sulawesi	64.9	38.4	154.3	85.9
South Sulawesi	66.6	48.4	200.1	141.2
Southeast Sulawesi	33.9	26.8	68.1	72.6
SULAWESI	66.0	47.1	192.2	127.1
Bali	107.6	93.2	423.0	360.3
West Nusa Tenggara	33.4	16.4	82.8	53.1
East Nusa Tenggara	19.3	24.2	52.6	63.0
East Timor	14.3	44.4	44.1	96.3
Maluku	173.4	61.5	418.6	152.5
Irian Jaya	41.6	67.1	157.8	179.8
OTHER	64.1	47.8	197.3	149.0
EAST INDONESIA*	83.7	60.0	227.0	172.6
TOTAL	186.1	178.5	499.6	470.9

*According to BI definition: Bali, West and East Nusa Tenggara, East Timor, Maluku, Irian Jaya, Central and Southeast Sulawesi, East Kalimantan

Source: Bank Indonesia.

Table 4

NUMBER OF BANK OFFICES PER CAPITA BY PROVINCE¹
('000 People/Office)

	State Bank		Private Domestic Banks		Foreign Banks		Development and Saving Banks		Total No. Bank Offices	
	Jan. 89	Sept. 91	Jan. 89	Sept. 91	Jan. 89	Sept. 91	Jan. 89	Sept. 91	Jan. 89	Sept. 91
DI Aceh	136.6	142.3	495.3	262.8	-	-	270.2	213.5	70.8	64.5
South Sumatera	192.3	201.1	120.8	69.8	-	10,256.0	428.3	445.9	63.2	46.2
West Sumatera	154.1	181.8	264.1	142.8	-	-	168.1	129.0	61.6	49.4
Riau	74.9	82.7	149.9	75.1	-	-	231.6	236.1	41.1	33.7
Jambi	134.2	155.1	581.7	288.0	-	-	436.3	252.0	87.3	72.0
South Sumatera	162.7	184.6	185.2	169.6	-	-	413.1	272.9	71.6	66.8
Bengkulu	117.9	147.4	471.5	235.8	-	-	188.6	131.0	62.9	53.6
Lampung	454.2	353.3	227.1	139.7	-	-	843.6	600.6	128.4	85.8
SUMATERA	163.8	174.4	186.3	112.5	-	36,455.0	343.2	272.1	69.5	54.6
DKI Jakarta	48.4	41.1	18.0	8.1	254.4	211.6	303.3	206.4	12.0	6.3
West Java	32.6	28.8	17.2	8.6	-	728.3	45.8	33.1	9.0	5.5
Central Java	338.8	372.4	246.6	143.8	-	-	616.6	484.7	115.9	85.1
DI Yogyakarta	2,449.5	2,852.2	1,924.6	679.1	-	-	2,993.9	2,852.2	792.5	460.0
East Java	363.5	342.1	146.8	75.4	-	3,611.6	694.7	422.1	89.1	53.1
JAVA	226.4	214.3	104.1	51.8	-	2,029.7	514.7	373.5	61.2	36.8
West Kalimantan	141.0	162.0	281.9	162.0	-	-	128.1	124.6	54.2	49.1
Central Kalimantan	79.9	107.4	-	1,396.0	-	-	186.3	199.4	55.9	66.5
South Kalimantan	113.7	129.9	454.6	236.2	-	-	252.6	216.5	66.9	60.4
East Kalimantan	63.0	75.1	108.0	72.2	-	-	189.0	156.4	32.9	29.8
KALIMANTAN	99.0	116.8	266.3	157.1	-	-	171.6	159.8	50.8	47.2
North Sulawesi	115.7	112.7	136.1	95.3	-	-	192.8	177.1	47.2	40.0
Central Sulawesi	88.9	100.6	503.7	342.2	-	-	755.5	570.3	68.7	68.4
South Sulawesi	165.3	179.0	183.6	136.9	-	-	388.8	303.6	71.1	61.8
Southeast Sulawesi	124.4	150.0	1,120.0	675.0	-	-	560.0	337.5	93.3	90.0
SULAWESI	134.3	143.9	202.7	149.1	-	-	350.1	284.6	65.6	58.2
Bali	147.2	163.4	75.7	27.2	-	-	176.6	173.6	39.0	20.6
West Nusa Tenggara	230.4	280.8	998.3	306.4	-	-	272.3	259.2	110.9	93.6
East Nusa Tenggara	218.6	217.9	3,061.0	1,089.7	-	-	510.2	297.2	145.8	112.7
East Timor	315.5	374.0	-	374.0	-	-	157.8	149.6	105.2	83.1
Maluku	123.8	123.7	402.3	206.2	-	-	160.9	132.6	59.6	48.8
Irian Jaya	97.9	71.3	685.5	547.0	-	-	171.4	96.5	57.1	38.2
OTHER	166.4	162.6	273.7	105.1	-	-	228.1	179.8	71.2	47.1
Eastern Indonesia ²	132.7	137.8	261.3	114.1	-	-	249.4	195.8	65.1	47.3
TOTAL	186.8	186.6	129.7	67.1	4,317.0	3,320.8	389.7	299.4	63.0	41.8

¹Bank offices do not include village units²In accordance with BI, Eastern Indonesian includes other, Central and Southeast Sulawesi and East KalimantanSource: Bank Indonesia, *Financial and Economic Statistics*, various issues.

of people served per bank office and the national average has gone down significantly. The number of bank offices expanded mostly by private domestic banks and it can be seen that the figures have fallen dramatically for domestic private banks. As with deposits and credit per capita, equally dramatic falls were experienced in Java, Sulawesi and Eastern Indonesia, but less so in Kalimantan and Sumatera. While these figures are at best crude proxies, there is some indication that deregulation has created a competition and resulted in improved availability of financial services to the regions.

b. Small Scale Credit Programme (KUK)

At present on average the 20% KUK out of total credit for all banks seems to have been reached: in June 1991 KUK was 25% out of total credit compared with 22% in September 1990 (however in January 1992 this had gone down to 22.8%). The value of KUK has increased from Rp. 14.1 trillion to Rp. 22.8 trillion or an annual increase of 27.4%. Half of the KUK is provided to the trading, hotel and restaurant sector. The second biggest share (around 16%) goes to consumer loans for housing, teachers and students. Manufacturing only receives around 10% of the loans and mainly in the textiles and food processing industries.

The quantitative target appears to have been achieved. However it should be noted that the growth of KUK credit has been slower than total credit growth. In a recent statement to parliament the governor of the central bank also indicated that as expected KUK loans experienced a higher rate of default compared to total credit. The objective of the KUK programme to achieve equity

and improve the access to small scale business is commendable. However, there are several weaknesses and "side effects" that imply that the KUK programme does not reach the target in the most optimum way.

First is that KUK affects the natural tendency for specialisation by general commercial banks whereby large banks tend to the knowhow, capability and experience to lend to small scale business. For instance, based on their past functions, the state bank BRI has half of its portfolio in KUK while the state bank Bank EXIM initially only had a small portion of their portfolio in KUK. The smaller private domestic banks in general have already satisfied the KUK requirement. The possibility to cooperate with People's Banks and other banks is not easy to implement because basically the bigger banks can only lend out Rp. 200 million/bank. The diversion from being able to specialise could increase operational costs, limit the amount of credit that they can give out since for every new credit given the bank must think whether the KUK quota can be met, and in the end raise the overall interest rate of credit.

Second is the linkage between KUK and the soundness rating of the bank by Bank Indonesia. There is some inconsistency with the criteria as KUK loans tend to have a higher risk associated with them and as such increasing KUK will no doubt increase the riskiness of the loan portfolio. The banking sector is also concerned with additional complications since often what the bank considers as KUK is not considered KUK by Bank Indonesia. Hence the bank may feel that it has satisfied KUK but in fact when they are rated by Bank Indonesia, it turns out that they are considered not to have satisfied the quota.

Third, experience to date with the KUK programme has indicated that banks have found ways to "get around" the KUK requirement such as through giving three Rp. 200 million loan to the same customer but to three companies. Such efforts increase the cost of transactions for the banks without the policy having reached its target.

Fourth is the question of whether the programme is reaching the small scale businesses under the present set of definitions. That is, is an average maximum asset of Rp. 600 million too high to incorporate the majority of small scale businesses? The definition of small scale is likely to vary by sector (services, manufacturing and agriculture), area (urban, rural) and technology used (labour intensive, capital intensive). The quantitative target of 20% is also questionable. What criteria was used to come up with the 20% target?

4. *Special Schemes and Institutions for Small Scale Credit*

There is no bank financial institution specialised in small scale credit, but several types of non-commercial banks have participated in the subsidised credit programme for small scale business. The small *bank pasar* and village banks have not loaned out to small scale manufacturing businesses, but have been important in financing small traders. At present there are *Bank Pasar* and Village Bank Units.

The regional development banks have been involved with the KIK/KMKP programmes and in addition have worked together with village units to provide small scale credit. The *Bank Umum Koperasi Indonesia* (BUKOPIN) functions to provide

credit to the local village cooperative groups under the Department of Cooperatives.

In 1989 a scheme of the allocation of 1-5% of the profits from State Owned Enterprises (SOE) to the development of small scale enterprises has also been introduced. The experience with the SOE under the Department of industry indicates that a large portion of the funds are provided in the form of credit at lower than market interest rate.

Non-governmental organisations (NGO) have also provided credit programmes through various groups such as *Bina Swadaya* and *Badan Kelompok Kredit Koordinasi*. The credit portfolio which is thought not to suffer too much from bad debts, tends to reach the poorest segment of the population and have been concentrated in petty trading activities.

Based on Patten and Rosengard (1991) a closer look at the Village Bank Units under BRI and the BKK (*Badan Kredit Kecamatan* or District Credit Unit) under the BPD (*Bank Pembangunan Daerah* or Regional Development Bank) reveals some interesting findings.

a. *Village Units (Unit Desa) under BRI*

Unit Desas were created to implement the agriculture credit schemes (BIMA, Mini and Midi) that existed during the oil boom period. The government savings scheme, Tabanas was also offered beginning 1976. As they were part of BRI, the units were not autonomous and did not have separate books (not accountable separately). The number of village units increased rapidly because of BIMAS. The fall in oil prices which

led to the decline in government revenues to finance the subsidised credit schemes and the elimination of BIMAS has pushed the adjustment of unit *desas* to take advantage of the network and infrastructure already created.

The adjustment involved making the units autonomous and separating the books for each unit so that each was treated as a profit and loss centre. The existence of the unit *desas* was then reevaluated based on profitability and no longer by quantitative criteria such as serving the rural sector (ie. *unit desas*/ha. rice fields). Some units were rationalised and service posts and service teams were introduced in certain areas (which reported to the nearest village unit).

The KUPEDES (*Kredit Usaha Pedesaan* or Rural Enterprise Credit) scheme was introduced which charged interest rates in accordance to the cost of funds (ie. savings deposit rate, transaction costs and risks). This is in recognition that the problem faced by small scale enterprises is access to credit rather than low interest rates. Access can be defined in terms of accesses to location, flexibility in terms, maturity and collateral in accordance to the needs of small scale enterprises.

The units also improved their own resource mobilisation by introducing the SIMPEDES (*Simpanan Pedesaan* or Rural Savings) scheme. The interest rates are lower than the government savings deposits, but are made more attractive by using lotteries.

The *unit desas* have by and large become viable and the funds mobilised from savings have more than covered the needs to fund credit (see Table 5). Over the 1984-1992 period, there has also been tremendous growth in the value of credit (Rp. 99 billion to Rp. 1.5

Table 5

DEVELOPMENT OF KUPEDES AND SIMPEDES

	Dec. 1984	March 1992
KUPEDES.		
No. Customers ('000)	640.7	1,937.1
Value of Credit (Rp. Billion)	99	1,535
Average Credit (Rp. '000)	154,507.4	792,405.5
SIMPEDES		
No. Customers ('000)	4,184.0 (for 1987)	8,825.4
Value of Credit (Rp. Billion)	42.19	2,490.62
Difference (Credit and Savings)	-56.81	955.62

Source: Bank Indonesia, annual reports and BRI.

trillion) and number of customers served (from 640,700 to 1,937,100). The average credit given at present is Rp. 792,406/customer. The number of savers have doubled to close to 9 million and the amount of deposits increased dramatically to Rp. 2.5 trillion.

b. The Case of BKK

The BKK scheme was also a rural credit scheme in cooperation with various regional development banks in Java. The regional development banks originally obtained a loan from the regional government to set up these BKK. The BKK were autonomous from the

beginning but had to be closed if they experienced bankruptcy. This differed from *unit desa* in the beginning which could survive through cross subsidisation. Now these BKK are more linked with the BPD and their accountability to the BPD has been increased.

In order to survive since the regional government lacked funds, they also had to become more viable. In 1984 some BKK were thought to be viable and able to mobilise funds through savings, but the response had been slow and most of the savings were forced savings on debtors. Now *unit desas* become more aggressive and innovative to promote voluntary savings as a source of funds.

The unique features about BKK are that first collateral is not always needed to obtain credit, instead character reference and social pressure is used. Second is flexibility in repayment terms which can range from one week to six months. The average rate of credit is much lower than the *unit desa* and their scope is more micro (*kecamatan* as versus *kabupaten*) and also have higher interest rates. Third, in their adjustment efforts they have succeeded in lowering transaction costs by linking the length and frequency of servicing through the mobile posts in accordance with the needs of the customer.

Future Policy Direction and Strategy in Financing Small Scale Business in Indonesia

1. Financing Through the Banking System

The main policy in Indonesia has been to improve or facilitate access to credit by small scale business from the formal banking

system. In this respect the direction of policy has progressed far. The policy of the Indonesian government has shifted in recognition of current thinking on small scale credit and its own experience with various subsidised interest rate programmes. In general it is now well recognised that the main problem faced by small scale business is access to credit and services associated with the loan, not the cost of credit as reflected in interest rates. The higher interest charged to small scale enterprises by the formal banking sector and even higher rates by the informal credit market reflects that credit markets are working perfectly in assessing the higher risks and transactions costs. Thus government intervention in small scale credit market cannot be justified, at least on efficiency grounds.

The KUK programme has replaced the subsidised and directed credit programme. In essence the credit is given on commercial terms and has removed the disincentives from the banks' and borrowers' perspectives on ensuring the loan repayment. However, as pointed out above there continue to be inherent weaknesses and problems of implementation that could mean that the target is not being achieved in the most optimal way.

Some would argue that an efficient and competitive financial sector will to a large extent improve the access to credit by small scale enterprises. Financial deregulation to date is estimated to have to some extent improved the availability of financial services to small scale business, especially in rural areas as discussed above. Market segmentation already exists with credit being differentiated according to prepayment, maturity, loan size, collateral requirements and interest rates. The formal and informal credit

markets continue to co-exist. A rough picture of segmentation may look like this:

Primary Banks: KUK. Rp. 200 million, mainly to trading sector (more than half); majority of the credit is estimated to be less than Rp. 25 million and large banks have a minimum credit of Rp. 5 million usually. Interest rate higher - around 1-3% risk premium.

Unit Desa: KUPEDES. Average credit around Rp. 1.2 million. Minimum Rp. 25.000 and maximum Rp. 3 million. Interest rate around 1-2% above KUK and shorter maturity. But more widespread in terms of location and flexibility.

BKK and other similar units. Average credit: Rp. 100,000. No minimum or maximum. Interest rate about 2-6% per month.

Informal Credit Market. Value of credit can be very small. Interest rate estimated at double BKK.

The access issue has improved and the important features are: flexibility in adjusting to local condition and the kind of activity the small scale enterprise is involved in; assessing the needs of physical collateral compared with character reference and track record; viability of institute is the key and viable with respect to the fact that interest charges reflect the cost of funds, risk and transactions costs; the biggest incentive to repay is the prospect of getting new loans and need viable and continuing institutions for that purpose; and to reduce administration costs as much as possible. Other important aspects are market segmentation and niche. Furthermore integration of the smaller financial units with larger or urban financial units through BRI or BPD or other banks which can function in the supervision,

monitoring and technical assistance aspects is also important. Another important lesson is that each unit must be managed as individual units so that the accountability and profitability are clear.

Thus, if one now has to consider whether government needs to still intervene, then in pure economic terms one must show that there is a market failure that needs to be corrected. Market failure in the credit markets are usually associated with imperfect information and imperfect enforcement (it is difficult to compel repayment). One needs to study the nature of market failure in the Indonesian context more carefully to understand the nature of intervention that is needed.

Even if access to credit is perceived as a market failure or that for other reasons we would like to have a policy on small scale credit, using KUK may not be the most direct way to address the market failure. There are other alternative policies which are more directly linked to the target.

First if the access to credit is limited because banks are unable or find it costly to evaluate small scale credit and the borrowers find the approval system too complex, then the correct policy would be to build-up the capability of bank staff to evaluate small scale credit, simplify approval system, improve the collection system by paying attention to the needs and particularities (ie. flexibility) and allowing specialisation of banks who will provide small scale credit.

Second the specialisation of banks who will provide small credit can be given further incentive or support by a system of credit guarantee or insurance. However, one must be careful with such schemes due to the com-

mon moral hazard problem that comes about. Banks may become complacent in credit evaluation and credit collection much as happened during the government guaranteed KIK/KMKP schemes. An alternative would be to have a bank specialising in giving small scale credit -- a small scale bank. The funds could come from the requirement of some percentage of banks credit much like KUK or the 1-5% of State Owned Enterprises that are now being put aside to assist small scale business.

Third, if for some reason the KUK scheme is retained, many changes can be made to improve the current regulations. The link to soundness should be delinked and instead some kind of penalty system imposed where the funds from not satisfying KUK can be pooled at the central bank and diverted to banks who want to give small scale credit or to a small scale bank. The main issue to be resolved here is who is ultimately responsible for the loan. Another suggestion is to securitise KUK.

2. Other Alternatives

The formalities of the application and approval procedures, collateral requirements and the less than flexible terms, often deter small businesses from obtaining a loan from the banking system. Other than the formal banking system, several other alternatives exist. *First* is the informal financial sector. Studies have indicated that the informal financial sector functions quite efficiently and the higher interest rates reflect the higher risk and transaction costs. Ultimately many small businesses will continue to rely on this source and the government should not intervene to prevent this, but could assist by providing protection and heavy penalties

to those who violate the law -- the answer is not to eliminate the informal credit sector. *Second* is venture capital and the like. How can incentives be provided to encourage this?

3. Other Issues

When one analyses the issue of financing small scale businesses several analyses have pointed out to specific problems. *First* is that one should distinguish between an ongoing small business compared with a new small business. The general feeling is new small businesses have greater difficulty than larger sized ventures. In fact as with all new businesses, one suggestion is to develop venture capital as one source of financing. This could perhaps entail improvements in the incentive system facing provision of venture capital and is one alternative that one should at least study.

Second, there is always a definition problem when one talks about small scale business and thus there is probably no one correct policy. The evidence with NGO and KIK/KMKP lending tends to indicate that small scale trading experienced less difficulty in getting loans compared with small scale business in manufacturing. There are also "special groups" that will need special policies or special attention:

- new small scale business;
- borrowers in very isolated areas;
- cottage and household level businesses
- the very poor and informal sector.

Research is still needed to understand fully the "profile" of these entities and one needs to have at least an idea of their profile before one can design appropriate policies.

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Development Programme, Cultural Interpretations, and Successful Implementation

Parsudi Suparlan

Introduction

DEVELOPMENT programmes are basically implemented through socio-economic projects. They are government programmes for improving the welfare and the quality of life of its people, by focusing on efforts to change the patterns of economic life, i.e., by increasing economic surplus and generating capital. Thus, such programmes change the ways of life or the culture of the people. Such an approach sees culture as a blueprint for life or as sets of reference systems for interpretations and actions. Culture is treated as holistic or systemic, i.e., changes in economic life may only be possible if there are sufficient changes in economic culture (as the blueprint for economic activities). This

may only be possible if such changes cause changes in other cultural elements which, in turn, support the changes in the economic culture.

The problem facing Indonesia is that it is a plural society, and at the village level there are numerous economic and cultural patterns and levels. At the village level this refers to variations in ethnic cultures but also to historical and ecological variations. At one extreme of the continuum some villages are urbanised while at the other extreme some are isolated and 'backward'. People at the village level respond in varying ways to government programmes as each use their own culture as a distinct reference system. Thus, although development programmes are uniform and unitary at the national level, their implementation at the village level varies depending on the local ethnic cultural patterns and ecological systems. So, a particular programme may be well-received by some rural communities, partially by others, while still others refuse to accept it or to use it to change their existing cultural patterns.

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Reception of and responses to development programmes thus varies from one culture to another.

This paper tries to show that socio-economic development projects may be successfully implemented and attained by seriously taking account of the cultural factors of the local people, i.e., the culture of the people at the village level. Among the cultural factors which play a critical role in influencing the success of such projects are the cultural interpretations of the local people. In this perspective, the local people and their culture are seen as actively playing a role in understanding the meaning and impact of such projects.

The case presented is from Bali, i.e., how the rural Balinese adopt the idea of tourism as a socio-economic development project into an inseparable part of their culture and implement it into tourist services. Tourism has benefitted the Balinese socially and economically, and it also generates the maintenance of the Balinese cultural traditions. The critical factor in the success of tourism in Bali is encouragement from the government by giving the Balinese certain amount of space to culturally interpret tourism and implement it accordingly. Thus, they are allowed to invent ways of transforming this socio-economic development project into their own cultural traditions so that its implementation institutionally, and especially morally and ethically, makes sense for them.

Following Hobsbawm (1983), such invention of the Balinese cultural tradition is seen as a way to mediate between the local ethnic culture and the 'foreign' socio-economic development project. In such an approach, Goffman's classic model of 'front stage' vs 'back stage' (1959) is also relevant

and will be used to explain the nature of cultural interpretations and their expression as invented traditions. Local culture can thus interpret changes in the local cultural economy caused by socio-economic development projects. Presentation of the Balinese case will be followed by a discussion of the importance of the local culture in influencing the successful implementation of any development programme.

The Background

Bali is one of the twenty-seven Indonesian provinces. This province, compared to other Indonesian provinces, is relatively homogeneous, both ethnically and culturally. In this respect it is comparable only to Central Java province. The Balinese have a distinctive culture, very different from other Indonesian ethnic cultures. It is a product of centuries of blends of Hindu and local religious traditions. The core value of this culture is *Tri Hita Karana* or a balanced relationship among its three elements. These are: (1) to observe religious ritual practices; (2) to work the land and exploit the environment while taking care of them; and (3) to maintain good and healthy relationships with kin, neighbours, and with the community one lives within (Geriya 1985, 15-17).

In this culture the interdependency of constituent parts as an expression of the core cultural value is a way of life; and this is institutionalised in all forms of daily life activities. Any activity deviating from this prescribed rule is prevented and prohibited by members of the community based on *Awig-awig* or the written customary law of the village community. Any deviation from the spirit of *Tri Hita Karana* is considered ethically and morally wrong and religiously a

sin. It is subject to punishment by the community, the temple, and the gods.

The administration of Bali is organised following the national bureaucratic system, i.e., each province is divided into districts (*kabupaten*), each district into sub-district (*kecamatan*), and each sub-district into villages (*desa*). However, at the village level there is a typical Balinese administration system different from the administration of the rest of Indonesian villages. The Balinese village administration is divided into two parts, i.e., villages of government administration and villages of customary and religious administration. The first type is called *desa dinas* (official village) and the second is *desa adat* (literally: customary village). The authority for administering village affairs of the first type is above the second, in terms of power but not in administrative terms because *desa adat* is not formally organised under the administration of the *desa dinas*.

Under the administration of the *desa dinas* there are a number of *banjar dinas* (official hamlet); and under the 'administration' of *desa adat* are a number of *banjar adat* (customary hamlet). Customary village and customary hamlet are basically Balinese types of village administration under the Balinese princely kingdoms before Bali became part of the Republic of Indonesia. In anthropological literature Balinese villages are known as autonomous traditional communities (Liefcrinck 1889, 233-242; Covarrubias 1988, Vollenhoven 1928). In spite of the fact that under Balinese kingdoms aristocracy was despotic, the village people had the power to bargain with the aristocracy through their autonomous communities and their internal communal organisation known as 'village republics' (Liefcrinck 1927, 281).

In this 'republic' type of Balinese village organisation, presently known as *desa adat* and *banjar adat*, every village member is a free man, unservile and unsubmissive to authorities beyond his ties to his village communal organisations and activities. Every village is organised into a compact board independent of the authority of other villages or kingdoms. Every village comprises several hamlets (*banjar*); and every member of the hamlets are members of the village board as well as of the board of his hamlet. As a member of the board every man is morally and physically responsible for the welfare of his community through co-operative work with his fellow villagers.

As board members their task is to observe the *awig-awig* or the traditional customary law created by their ancestors. If necessary they could make new rules and laws based on the already existing *awig-awig* to respond to new situations. Once every member of a village has agreed upon the contents of the *awig-awig* they adhere to it strictly. Any deviation will be considered as wrong and subject to punishment. Decisions as to whether an individual member's actions are wrong or within the scope of the law of the *awig-awig* are made by the board members. This traditional rule of *awig-awig* and the village boardship are still effective to the present as village institutions.

Awig-awig is not only used to regulate communal life activities but also in other types of village organisation, such as irrigation organisation (*subak*) and voluntary organisation or *sekaha*. Every member of such organisations has the same vote as the other members in making decisions. Each member also has equal responsibility for the organisation and the welfare of its members. Every man will be assisted by neighbours,

members of his organisations, in everything related to the organisation if he cannot do it by himself. Their help is a matter of duty without any reward other than acknowledgement that he would do the same when they needed help. In this way every member of a village community is morally and physically responsible for the welfare of the other members of the community. Deviating from this rule is wrong, and the hardest punishment is to be excluded from community activities. Anyone so punished loses the right to live in the community, including the abolishment of the right to be buried in the village graveyard and to have the ritual burial ceremony.

Development programmes go down vertically, from Jakarta to the provinces, from the province level to the districts, to sub-districts, and to official villages and further still to official hamlets. Such programmes are instructional and top-down in nature. But when it comes to the implementation of a programme which involves the village members, this programme has to be interpreted and accepted by village members as members of the customary village (*desa adat*) at the village level and as members of the customary hamlet (*banjar adat*) if such programme is to be carried out successfully (Geriya 1988).

This mechanism of interpretation by the customary village and hamlet members is basically an expression of acknowledgement that an official village and hamlet are parts of a bureaucratic system designed to carry out government policy and development programmes from top to bottom. On the other hand the customary village and hamlet are parts of a system which is basically traditional and comprises the actual people who will carry out such top-down programmes.

Tourism As a Socio-Econmic Development Project

Bali is famous for its natural beauty and for its artistic, cultural and religious traditions. Although its reputation as a tourist paradise dates back to pre-World War II, it was only in 1969 that the Indonesian government began to pay special attention to its economic potential for tourism. It was a wise decision as tourism is the second largest industry in the world. It is paid for in hard currencies, and, thus it will give a chance to acquire badly needed money for the Indonesian government to purchase modern technologies for developing the country. Dollars and other hard currencies can be attained through tourism without incurring heavy foreign loans or debts.

The Indonesian government decided to open the country to international tourism, as stated in the First Five Year Plan or *Repelita I* (*Departement Penerangan R.I.* 1969, 168-180). A Master Plan was made in 1971, and by Presidential Decision in 1972, tourism was placed as top economic priority in Bali. Authorities of the Balinese province in response to the Master Plan and the Presidential decision, proposed a formula of Cultural Tourism (*Pariwisata Budaya*). The term cultural tourism meant that Balinese cultural traditions were to be converted into tourist attractions and its promotion left to the local people. The critical point here is then, the response of the Balinese provincial authorities in formulating tourism as cultural tourism and the conversion of cultural traditions into tourist attractions. Equally important is the allocation of the promotion and selling of such attractions to the local people, i.e., members of the villages and hamlets.

Customary villages and hamlets play a central role in the involvement of local people in tourism as development. My informants say that during the seventies discussions on accepting tourism heated up due to fear of pollution and the destruction of religious and cultural tradition. The Balinese fear of tourism may have been felt intuitively from their past experience in dealing with tourists who came to their island. Indeed, there are reasonable grounds for their fears if we consider who the tourists are. Cohen (1974, 527-555), stated that tourists are those who engage in these activities: (1) voluntarily visiting another place for a certain period of time; (2) the reason for the visit is for recreational activities; (3) recreational activities are to experience pleasure, something exotic or adventure-some; and (4) through these activities the tourists are freeing themselves from daily routines and boring mechanistic activities, to become new persons.

If we consider who the tourists are, or if we consider ourselves as tourists, the critical points are the need to obtain pleasure. Pleasure does not have an objective standard of definition or limitation. And if such pleasure, an individual and personal desire, is to be satisfied with something exotic or adventuresome, and the Balinese have to feed tourists with their cultural traditions to satisfy their desire, the problem they feel they will be facing will be a situation in which they have to let the tourists consume their sacred cultural tradition as plaything.

Another fear they had during the seventies was that tourists or more specifically Westerners, would bring their ways of life or their Western culture into their community and homes. Thus their cultural traditions would be disrupted by the Western cultures as brought to them by the tourists.

This fear may have come out of not realising that there are three types of tourism.

The *first* is nature tourism, in which the tourists enjoy the feeling of nature and adventures; the *second* is culture tourism, in which the tourists enjoy the exotic sphere of a culture through visits to recreational sites, historical buildings, art galleries, museums, and performances. In culture tourism the tourists demand a display of appropriate ethnic culture, a market of ethnic arts with some of these arts defined in terms of the tourists' tastes, hotels, restaurants and bars, and other supporting facilities in Western modern cultural standards. These last facilities are a prerequisite for the tourists to come and to feel at home in their adventures in far-away lands. It is exactly as Boorstin said (Boorstin 1975, 77-14)) about American tourists: "We expect everything to be relaxing, sanitary, and Americanised if we go to a faraway place". The *third* is ethnic tourism (Mac Cannell 1976), in which the tourists are not only satisfied by tourist attractions offered by the travel and tourist bureaus as they see those attractions as superficial. They want to enjoy the exotic cultural sphere through experience, because what they want is the authenticity or originality of the native cultural traditions. They demand to be able to live with the natives in daily life activities.

This ethnic tourism may bring damage to the native cultural traditions as the tourists live in the natives' homes. With their money the tourists could ask whatever they want, to experience the exotic and the mysteries of the native cultural traditions.

But, wisdom came to their elders and leaders, according to these informants, who wanted to get money from the tourists by selling their revised and invented cultural

traditions and arts. Thus, the tourists would believe that the cultural traditions and arts they see performed and buy are genuine, although in reality they are only invented traditions or pseudo-genuine ones (Bandem and de Boer 1981; and Muka 1980).

Traditional leaders in the hamlets are mostly from the *ksatria* caste of the Balinese pseudo-caste system similar to the Indian caste system. Their position as leaders has been weakened since Indonesian independence, and their means of keeping themselves honorable is through formal education, formal position in the government administration or involvement in business. Clifford Geertz noticed that in Tabanan, a town west of Denpasar, the capital city, there were several types of *sekaha*, voluntary organisations led by the *ksatria* or members of the princely families, engaged in various business and trade activities (Geertz 1973, 106-120).

Activities for economic gain in Bali have never been done individually but always through a voluntary organisation. Members of such organisations always include members of the family, immediate kin/relatives in the hamlet, and other members of the hamlet or even the hamlet (*banjar*) itself if an activity needs a large number of people. Leadership for such activities usually follows the waning traditional caste system (*tri wangsa*) in which the *ksatria* is generally the leader. But, a *ksatria* without enough money cannot lead such an organisation because relationship between the leader of a *sekaha* and its members is similar to a patron-client relationship.

Thus, in response to tourism as development and the demand for economically better living conditions, the upper class, i.e., the

ksatria in the village, take the initiative to organise members of the village into *sekaha*, and through this organise tourist attractions. Economic gain from selling the invented tradition and cultural things are shared among members of the *sekaha*, with the *banjar*, and with the temples. Thus, the balance or orderly relationship between the individual and his community, his gods, and his natural environment (through the money contributed to *banjar*) are maintained.

Discussion

The institutional relationship between the local or provincial government and the national government can be seen as a power relationship. The same is also the case with relationship between the local government, as the bearer of national development policy, and the people at the local or village levels. This type of relationship is commonly known as top-down, with decision making in development policy coming from top, i.e., from the national government to the local or provincial government, and from the provincial government to the people at local or village levels.

In such a top-down model the government has the power to impose, through coercion and threat if necessary, a particular development policy upon its people. The people are just the tools for attaining policy's ends and they are not really treated as humans.

What is critical about being human is culture, where a person's culture is identical with his being human. It is a shared knowledge of the people, the community, and the society; functioning as a set of reference

system or 'models for' (Geertz 1973a, 87-125) for interpreting and understanding situation and generating actions and behaviour. It not only generates actions and behaviour but at the same time controls them. Without culture human needs would be fulfilled in a human way. When talking about being human most of us, the humans of all races, refer to being morally and ethically refined or being civilised. But at the same time most of us also refer to being economically sufficient or advanced to fulfill the human needs for survival, honour and dignity.

The Balinese case of tourism deserves special attention in view of the theme of this meeting on cultural factors in successful, socio-economic development projects. The *first* issue is the place of the cultural factors in socio-economic development projects. Socio-economic development projects are deliberate and planned efforts by the government to improve the socio-economic living conditions of the people, more specifically their economic conditions. Improvement in socio-economic conditions is not necessarily seen as an improvement by the local people who should implement the program. The critical point in influencing and shaping the people's perception is their culture.

People at the village or local level evaluate socio-economic development projects by using their culture. With feelings and emotions, along with rational economic calculations, they try to figure out what benefit they get if they leave their traditional socio-economic models for behaviour and replace them with new ones. Gains could be in terms of economy, social security or personal honour and respect. Their cultural interpretation leads to the decision as to the inclusion of the socio-economic development project into their culture.

Thus, the *second* issue is the inclusion of the development programme in the local culture as one of the elements of the system of knowledge, i.e., as one of the models for interpreting the environment and generating motivation, actions, and behaviour for socio-economic gains. The problem of replacing one model or reference system for another new one is not that simple. It needs support and justification from other elements of the culture, especially from codes of morality and ethics and from social institutions. The people concerned have to rationalise and justify their decision when facing such a situation. The result could be one of the following: (1) to adopt the new 'models for' by rejecting the old one and thus to change the whole cultural system; (2) to adopt the new 'models for' with a certain amount of adjustment to the old traditional one of their culture; (3) to adjust both the 'new models for' and the existing traditional one so that changes are made both in the 'models for' as well as in other supporting cultural elements as a whole; and (4) to create new cultural traditions separate from the old traditional ones in order to be able to respond properly to the power structure of development as imposed by the government and to cope with problems arising out of gain from development programmes. The case of tourism in Bali is an example of this.

Cultural interpretation and the invention of tradition are not independent phenomena. They emerge out of interactions between the government and the people within the nature of the Indonesian structure of power in Bali, the structure of power within the village level, and the patterns of Balinese culture, specifically at the village level. The case of the success of tourism in Bali as a socio-economic development project through the

people's cultural interpretation and invention of cultural tradition for tourist services has shown that there is some latitude for interpretation and innovation.

Such latitude may only exist if encouraged and allowed by the government within its power structure. Indonesian development as an ideology is based on the theme of development of the total Indonesian Man (*Pembangunan Manusia Seutuhnya*) meaning that it treats development as for and by the people. It is to develop their physical, social, economic, personal or cultural well-being based on the national ideology of Pancasila. In this sense the development of the total Indonesian Man can be interpreted as development from a cultural perspective. It is also in this sense that when we talk about cultural factors in development we are actually talking about development as seen from the cultural perspective, or more specifically from the local people's cultural perspective.

If my interpretation is correct, the way I see development as seen from a cultural perspective is similar to human development, i.e., involving not merely economic and social gains but also human dignity, and codes of ethics and morality. It is in this sense that I see the ideology of 'development of total Indonesian Man' in Indonesia and as applied in Bali in the case of tourism. It is a people-centred approach, which not only emphasises the cultural perspective but with an understanding of the social dimension; as culture is only operationalised in daily life activities within social contexts. Thus, social and cultural factors should not be treated as a static entity but seen as dynamic factors.

To summarise, the cultural factors in socio-economic development projects must

not only be seen from a cultural perspective but also as implying human development, i.e., human dignity and codes of ethics and morality. In such an approach people are the focus of development, and they are also the actors who have the ability to consciously select their alternatives from among the available models from their cultural traditions to be used in interpreting their situation or environment and in generating appropriate behaviour in response to new ones as the result of development. These are used in order to be able to understand their position and adapt to new situations and to gain benefits from them. Hobsbawm (1983, 4-5), has observed the ability of man to invent tradition or culture in efforts to cope with new situations, as he stated:

However, we should expect it to occur more frequently when a rapid transformation of society weakens or destroys the social patterns for which 'old' traditions had been designed, producing new ones to which they were not applicable, or when such old traditions and their institutional carriers and promulgators no longer prove sufficiently adaptable and flexible, or are otherwise eliminated.

The invention of tradition, then, is created by the people themselves, the community or the society. It can be seen as restructuring culture, community, or society, in order to be able to overcome the feeling of rootlessness, of shock or culture shock, in new environments, as product of a search for appropriate tradition or culture. It is a product of history. By inventing tradition the culture becomes enriched and more complex. In the Balinese case, through the adoption of tourism, the culture comprises traditional old elements and new invented ones.

The Balinese case can be seen as the emergence of 'back stage' and 'front stage'

in its culture (Goffman 1959). Each functions at a different level and structure of Balinese life activities. The 'back stage' knowledge of their culture is designed for life within their own domestic, private, and sacred spheres of activities. On the other hand, the 'front stage' is for dealing with the tourists and foreign elements within their cultural traditions; it is designed to mediate between their being Balinese and their cultural traditions and the foreigners, the tourists, and their cultural traditions. Thus, the 'front stage' is the culture in which revision and manipulation is possible, while at the 'back stage' people adhere to the traditions handed down through generations.

In the light of the discussion on development from the cultural perspective, in the Balinese case, it is relevant to treat the invented tradition or the 'front stage' as the new situation. Tourist sites and attractions can be seen as functioning to mediate between tourism as a socio-economic development project on the one hand and the Balinese cultural traditions on the other hand. The new situations or tourist attractions can also be seen as functioning as a buffer or a filter to keep the traditional activities from being changed or destroyed in the structure of interactions between the Balinese and the tourists as well as between the Balinese and tourism as a development programme. The invented tradition or the 'front stage' is deliberately created and invented to interpret and to implement tourism. It is designed to gain benefits from tourism, and its profits can be used, among other things for maintaining their cultural and religious traditions as prescribed by the *Tri Hita Karana*. Thus, this mechanism is functioning successfully in implementing development programmes on the one hand

while on the other hand it has had a positive impact on the maintenance of the Balinese cultural traditions.

In this model, the dynamic roles of the people, the mediators in the form of invented traditions, and tourism as development programmes, are seen as dialectic and dynamic in their nature. Without the existence of such a mediating factor the local people will not be able to comprehend changes resulting from any socio-economic development project which is imposed upon their structure of life, and thus will not be able to control any negative impact from such programmes upon their cultural traditions. As cultural traditions are seen as resources for human development, culturally and socially, changes that may occur due to development may change the potential of their cultural values as a reference to organise the human quality of daily life activities. This, in turn will affect the ability to comprehend any development programmes imposed upon them in the future. This will affect the quality of the success of such development programmes.

Conclusions

I have tried to show that a development programme in Bali has been successfully implemented by the local people, through stages of interpretations. Such interpretations, as shown in this paper, always use the conditions or potential of Bali, environmental or cultural, as references, whether by the authorities at the provincial level or by the people at the village level.

Interpretations by the people lead to the invention of traditions or cultural things. Their function in mediating between tourism

as a development programme, on the one hand and the cultural traditions of the people, on the other hand has been clearly shown. The invention of tradition in mediating these two entities is not only apparent in the case of tourism, but in other programmes as well. An example of this is the way the people at the village level responded to agricultural modernisation, i.e., the intensification of the rice planting system (Geriya 1985 and 1988), and Family Planning Programme (Geriya 1988). Certain revisions were made and rules were created, from time to time, by using their cultural traditions as reference systems and by calculating benefit and profits.

Such a model may only be possible if institutionally there is a mechanism to organise the local people with equal rights for every one, and a cultural system with core cultural values to support and justify such activities. More simply, there should be a tradition of people organising themselves in response to a development programme. In such a situa-

tion a development programme has been transformed into the village people's programme. It is a part of the people's cultural system, but it is functioning on a different stage of activities, i.e., at the 'front stage'.

Cultural factors in successful development projects should be seen from a methodological perspective. In this approach cultural factors should not be treated as a separate entity but as an inseparable element of the same importance as the socio-economic elements of a development project. Development project is seen as a system; and in this sense it is seen from the cultural perspective. It is only through this approach that the involvement of the people and their active roles in development projects can be reached to guarantee success. People are not only aware of consequences of the power of development in changing their cultural traditions but they also, at the same time, make efforts to cope with these negative impacts through their cultural interpretation and their invented tradition.

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Book Reviews

The Ethnic Chinese on Bangka

Bangka Tin and Mentok Pepper; Chinese Settlement on an Indonesian Island, by Mary F. Somers Heidhues. Singapore: Institute of Southeast Asian Studies, 1992, 270 pp. Reviewed by Daniel Setyawan.

THE title may suggest that this book is very technical and deals mainly with tin and pepper. However, the main subject is the history of Chinese settlement on the island of Bangka from the early eighteenth century to the present. The role played by those Chinese immigrants to Bangka (and to a certain extent Belitung) is largely responsible for the island's association with tin and pepper.

The central themes of this study are the Chinese organisations of raw-material production, importation of labourers, and the gradual formation of a Chinese community. Most studies of the ethnic Chinese in Indonesia focus on those living in Java and are generally concentrated on the upper layers of this ethnic group, whereas the lower levels are only slightly touched upon, if at all. Since the early twentieth century, ethnic Chinese in Indonesia have been objects of resentment and sometimes violence. The Chinese are considered excessively rich and

another legacy of colonial rule. This study on the ethnic Chinese on Bangka, conducted by Dr. Mary Somers Heidhues is very interesting and valuable, since it gives a quite different perspective of the ethnic Chinese usually found in writings on the ethnic Chinese in Indonesia. Dr. Mary Somers Heidhues, who obtained her Doctorate from Cornell University, is also author of *Southeast Asia's Chinese Minorities* (1974) and *Politik in Südostasien* (1983). So this is not her first study on the ethnic Chinese in Indonesia.

This book comprises eight chapters, which are chronologically arranged. They provide an historical account of the ethnic Chinese group on this tin-producing island since the beginning of the eighteenth century. From her observations, we see that it is misguided to view the ethnic Chinese as an undifferentiated and uniformed wealthy group. The Chinese in Bangka were at the lower end as well as the top of the economic scale.

This study also gives an account of ethnic relations between the indigenous people, the Chinese and the Dutch colonisers. It describes the economic development on Bangka and Chinese contribution in that development. The relationship between Chinese set-

tlement and colonialism is complex. The Chinese settled in Indonesia centuries before the colonisers arrived. However, after the establishment of Dutch colonial rule, they were used as intermediaries between the Dutch and the indigenous people in Indonesia.

In Indonesia, many kinds of group have been described as servants of Dutch imperialism: the indigenous nobility, who in the nineteenth century became colonial officials, certain ethnic groups who served in the military, and especially Chinese traders and owners of monopoly revenue from concessions for gambling, opium, markets and the like. This study shows that the conception of the Chinese minority as some kind of colonialist pawns -- be they traders, landowners, tax-farmers or even coolies -- distorts colonial economic history and inter-ethnic relations as they existed, in particular outside Java, before the second half of the nineteenth century.

Tin mining existed in Bangka before the arrival of the Dutch and was exploited by the indigenous population using their own technology. The technology was subsequently improved by the Chinese, who came to Bangka and Belitung from China following the increase of demands for tin and workers. According to Heidhues, the Chinese who went to Bangka to work in the tin mines introduced the pump and water-wheel technology for mining. The technology was improved again in the twentieth century with the introduction of Western knowhow.

A Chinese community developed on Bangka. As a rule, the immigrants were unmarried or did not bring their wives with them. Consequently they married Bangkanese women, whose children are referred to

as *peranakan*. Mary Heidhues uses the word *peranakan*, which means local born, to distinguish the offsprings from *singkehs* meaning newcomers, those born in China. Heidhues admits that *peranakans* on Bangka are different from those in Java, who no longer use the Chinese dialect as their mother tongue, whereas those on Bangka still use it as their native language. The term *peranakan* as used by Heidhues is confusing since *peranakan* exactly means a person of mixed blood in contrast to *totok* which generally denotes a person of pure blood. A local born may be of pure blood because his or her parents are *totoks*. According to Heidhues all the (Chinese) women were born on Bangka and most are descendants of Bangkanese and Chinese. In addition, *peranakans* on Bangka are similar to the *totoks* in Java in terms of culture.

The author also provides another aspect of the life of unmarried Chinese working in the tin mines. Those Chinese coolies were either homosexuals or were involved in prostitution usually with local women. However, during the time for payment of wages Chinese and Japanese prostitutes came to Bangka from elsewhere.

Although Bangka is generally known throughout the world for its tin, only a minority of its population make its living from tin. The majority of the population live primarily from agriculture, particularly from the cultivation of pepper. Tin production increased under direct colonial rule, which was initiated by the British during their occupation of the Indonesian Archipelago (1812-1816) and was continued by the Dutch. Since Indonesia's independence (1945) tin production has been managed by government-owned company PT Tambang Timah.

As for the Chinese community on Bangka today, Heidhues' study shows that the ethnic Chinese on Bangka are mostly *peranakans* with strong local roots due to intermarriage with the indigenous population (*pribumi*) in the past as mentioned earlier. As a consequence, even the features of local *pribumis* resemble those of the Chinese and many of them are able to converse in the Hakka dialect if the Chinese are unable to speak Malay, which has also facilitated the indigenous people to understand Chinese culture. This is interesting since usually foreign culture adapts to indigenous culture as is the case with the ethnic Chinese in Java and not the other way round. "Local *peranakans* lived as the *pribumis* did. They were farmers, labourers, fishermen, small traders and clerks. Class differences were consequently smaller than elsewhere in Indonesia ..." (p. 226). There seems to be no inter-ethnic violence on that island, that exists elsewhere in Indonesia. To Bangkians "racial" differences are of minor importance.

The picture of Bangka today has changed enormously. In the past, visitors to the island could imagine that they were somewhere in China, but now the Chinese are

simply part of "the Bangkan -- and Indonesian landscape." Although relations between the ethnic Chinese and indigenous Bangkianese are good, intermarriage rarely happens now. According to Heidhues, especially Chinese men do not seem to be taking *pribumi* wives as they once did, perhaps because of religious reasons. It would be difficult to bring *pribumi* wives into Chinese families (especially if they are Muslims), while Chinese sentiment seems to be that sons should remain within the family. Further, the number of Chinese seems to be declining while that of the non-Chinese increases. Many Chinese youth went to Java and more *pribumis* transmigrate to Bangka.

Dr. Heidhues does not elaborate on the development of Chinese community in Belitung. To Indonesians, Bangka as a tin-producing island cannot be separated from Belitung. Perhaps the book would have been much more interesting if the author had compared the development of the Chinese communities of the two islands. Nevertheless, this book should be read by those interested in the ethnic Chinese in Indonesia, as it gives a lot of information about them, viewed from a novel perspective.

Indonesia's Forgotten War

Indonesia's Forgotten War: The Hidden History of East Timor, by John G. Taylor. London & New Jersey: Zed Books, Ltd., 1991, 230 pp. + xiii. It includes an introduction, chronology of events in East Timor since 1974, bibliography and index. This review article is written by Anne Greene.

LITTLE is generally known about this subject, and aside from newspaper and occasional journal articles, less has been written about it. For the truly uninitiated, an explanation of the title of the book is in order. Indonesia's "war," is a reference to military and other methods em-

played by Indonesia to integrate East Timor. East and West Timor share a small island in the eastern part of the Indonesian archipelago. West Timor has historically been part of Indonesia, but East Timor was a Portuguese colony until the 1970s when, according to different observers, it either opted for integration with Indonesia or it was forced to integrate, a difference of opinion that is the heart of this work.

The situation in East Timor since 1991 has become increasingly volatile. On 12 November of that year in Dili, the capital of East Timor, Indonesian troops shot into a group of mourners after one of the soldiers had been stabbed, killing at least fifty. The group had been attending a memorial mass for a person killed earlier that week by the army. That young man had favoured an independent East Timor.

Domestic and international repercussions of that violence are still occurring. In December 1992, Xanana Gusmao, a founder of Fretilin, East Timor's principal pro-independence organization, was captured by the armed forces in the basement of a house near Dili, after having been turned in by neighbours. His arrest has received considerable publicity in Jakarta, where he is being detained, and his trial, which began 1 February in Dili, will undoubtedly revive questions concerning Indonesia's relationship with East Timor and the legality of its incorporation.

In 1989, Eastern Europe broke away from the Soviet Union and in 1991, the USSR itself came apart. On the first day of 1993, Czechoslovakia divided into two parts. In the aftermath of the Cold War, a trend has developed toward the establishment of small and homogeneous states. The break-

down of the former Yugoslav Republic provides another example of this tendency, demonstrating that federation had failed to erase bitter memories and nationalist dreams. Dealing with the desire for self determination and making smaller states viable are two emerging challenges for the 1990s.

States have a tendency to view the world in their own image, as a collection of other nation states equally bent on modernization. However, many people residing in states belong to traditional societies, whose focus is much more local. States characteristically overlook them, undervalue them, or press them to assimilate. It is not fashionable to find intrinsic value in these societies. This publication looks at the effects of national and international relations on a traditional society and the continuing resistance to unification from some inhabitants of a remote part of an enormous nation.

Indonesia is young, dating only from 17 August 1945. However, it has become the fourth largest nation in the world with the dissolution of the Soviet Union. It includes more than thirteen thousand islands and peoples of many ethnic backgrounds and religions. A state philosophy called *Pancasila* and a national language, *Bahasa Indonesia*, are principal factors in its unity. East Timor is one of only a very few parts of the archipelago where pockets of resistance to incorporation continue to exist.

John G. Taylor, the author of *Indonesia's Forgotten War*, is a British sociologist, who has written two volumes on the sociology of development. He is also the editor of *Timor Link* for the Catholic Institute for International Relations. This book is written from the perspective of a sociologist, alarmed at the destabilization of traditional

Timorese society. It also reflects the perspective of one who has followed the fate of the Church and Catholics in East Timor.

Taylor's goals in writing this volume are straightforward. In the Introduction, he writes that they are to inform readers about the history of East Timor, to help its populace become independent, and to inspire other movements for national autonomy. He himself was active in the British Campaign for an Independent East Timor in late 1970s.

Taylor views Timorese history is a sorry saga of European and Asian colonialism. The first and most enduring colonizers were the Portuguese, who established a settlement on the island of Solor in 1599, beat off a challenge by the Dutch, but were forced out by the Japanese during World War Two, returning afterwards, only to be replaced by Indonesia.

The Portuguese were satisfied to reap the labour of the Timorese until 1898, when the Portuguese Royal Commission demanded more aggressive control and development of the colony. Thereafter, the colonialists forced the Timorese into work gangs, redistributed their land, and focussed on raising crops for export. In the process, they destabilized traditional structures of the society and its economy and coopted its leaders, the *liurai* and *suco* chiefs.

A major theme in this publication is that from the time Portugal decided to decolonize, Indonesia intended to takeover and began to plan for it, despite claims to the contrary. According to Taylor, the Indonesian military intelligence service, BAKIN, was in the vanguard.

A principal topic in this book, to which approximately half of the volume is dedi-

cated is a description of the Indonesian takeover and incorporation of East Timor. The author names and describes various operations and depicts tactics used as frustration mounted at the inability to eliminate the opposition.

An important role was played by the Church in East Timor. Although the Church had been the dominant provider of education in East Timor since the eighteenth century, its role was evidently limited since ninety-three per cent of the population in 1973 was illiterate. On 12 October 1989, the Pope went to East Timor. After consecrating the cathedral, he said mass to an overflowing crowd of 100,000. His message was restrained. The Pope simply called on "those responsible for life in East Timor (to) act with wisdom and goodwill for all." He did not say, as he had six years earlier in Haiti, that "things must change here, *il faut que les choses changent ici*." Even so, following the mass, some of the audience began to shout independence slogans, soldiers intervened and there was a violent melee. Thereafter, the local Church became an important focus of opposition to the Indonesian presence, calling for a referendum on integration and documentation of human rights abuses.

The author concludes that the combat had reached a military stalemate by the mid 1980s, leading the army to return to an earlier strategy of holding strategic locations and attempting to keep the Fretilin forces at bay. The Government sought to show that the political situation was under control by holding trials of Fretilin forces beginning in 1984. By the end of that year, one hundred and ninety-five prisoners had been tried under Articles 106, 198, and 110 of the Indonesian Criminal Code, then given sentences

ranging from two to seventeen years although many had already been in jail for years.

A final theme in this volume is the international reaction to events in East Timor and the writer speculates on actions that could be taken, but concludes that the probability of action on East Timor's behalf is increasingly unlikely. Initially, the United Nations reaffirmed East Timor's right to self-determination and called for negotiations by representatives from Fretilin, Indonesia, and Portugal. But by 1982, that margin of support had narrowed and the wording was changed to "interested parties" so that just Portugal and Indonesia would participate in the talks. The Human Rights Committee, one of the institutions in the United Nations intended to access of human rights violations, even removed it from the agenda in 1985, which Taylor blames on a powerful Indonesian lobbying effort. In his view, credit for keeping the issue alive at the United Nations lies with the non-governmental organizations (NGOs).

What is the future for East Timor? The author visualizes five scenarios: an Indonesian victory over the Fretilin, a Fretilin victory over the Indonesian forces, an Indonesian referendum manipulating a vote for merger, a plan to give East Timor limited political autonomy, and change caused by outside pressure on Indonesia.

Taylor presents his arguments for why none of these scenarios will succeed. Indonesia will not gain a victory over Fretilin because Fretilin will always be able to evade the combatants. Fretilin forces are unlikely to be victorious either with only about 2,000 members - in the absence of an upsurge in separatist movements. A referendum is un-

likely since Indonesia will not want the problem brought to international attention. Limited political autonomy for East Timor is doubtful because Indonesia does not want to stop fighting or increase East Timor participation in the system. International pressure is unlikely to increase due to Indonesian lobbying efforts. Portugal, which continues to make the case with the European Community, could get tired and give up. Taylor concludes that change in relations between East Timor and Indonesia will only occur if there is a new government in Jakarta. Even then, change could be slow and limited in scope.

There are a number of problems with this book, ranging from minor to substantive. Many of the more minor are related to editing.

Taylor is frank about his position on East Timor, but inflammatory language, overstatements, and under-reporting raise questions about the accuracy of the account. Throughout the text the Indonesian presence in East Timor is referred to as its "invasion of East Timor." In Chapter Twelve on page 180, the writer claims the United States, Australia, and Japan could have influenced things in the mid-1970s, "but the need to appease the Indonesian military became paramount."

The most serious shortcoming of the volume is its one dimensionality. The Indonesian Government, particularly BAKIN and the armed forces, are presented as evil. He claims that entire nations have turned a blind eye to conditions in East Timor for self centered economic, strategic, and political reasons. By contrast, the indigenous society of East Timor and Fretilin are virtuous and blameless. In Chapter Five, while the combatants devastate the urban areas, Fretilin

forces live peacefully in the mountains, growing crops, sending their children to school, and holding meetings with the community "for political clarification on the evolution of the struggle." From this laudatory description, the reader may wonder how other parties managed to attract any members, what frictions caused Fretilin to splinter, and why it has had so much trouble presenting its case in the international arena.

Some of the author's assertions are exaggerated, such as his equation of armed combat, transmigration, and birth control as horrors imposed by Indonesia to quell the Timorese. Taylor is particularly incensed about the introduction of World Bank funded family planning centres that want Timorese to limit their families to three children each. However, public policy encourages all Indonesians to limit their families to two children; the rationale for this policy is apparent to anyone who has been to Indonesia.

Some of the writer's arguments are cynical and counterintuitive, as in Chapter Thirteen, where Taylor asserts that the military is unlikely to pull out of East Timor because it is quite happy to be there, providing troops with combat practice in low intensity conflict and giving officers an opportunity for promotions and wealth from local investments. East Timor has been a long, expensive, and unpopular engagement, some-

thing from which one might assume the combatants and Indonesia, which is an increasingly important player in world events, would like to end.

Since Taylor is involved with the Catholic Church and has followed its activities in East Timor, it is unfortunate that he did not write more about this topic. Who invited the Pope to East Timor? What was his purpose in making this trip. Since the Vatican has not recognized the unification of East Timor and Indonesia, why was the Pope's address so mild? What caused the priests to take courage from the papal visit? In many countries with a Catholic presence, nuns and lay workers, who work most closely with the poor have become the most radicalized. It would have been interesting to know something about this subject.

This work was published in 1991, but it mainly covers events through 1989. An update is already in order as a result of the November 1991 violence in Dili and myriad repercussions; and changes in the international arena.

Despite its shortcomings, this is a valuable and provocative publication that provides English language readers an opportunity to think about the situation in East Timor. In addition, it raises questions of a larger scope concerning the rights of states and traditional societies, the proper role of religion, and the reluctance of states to negotiate differences of opinion.

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